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IMPACT OF THE PRESIDENT'S FY 1986 BUDGET PROPOSALS ON THE TENNESSEE ECONOMY

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

IMPACT OF THE PRESIDENT'S BUDGET PROPOSALS ON AGRICULTURE

JANUARY 10, 1985—MILAN, TN

IMPACT OF ECONOMIC AND COMMUNITY DEVELOPMENT BUDGET CUTS

FEBRUARY 14, 1985—CHATTANOOGA, TN
FEBRUARY 15, 1985—JOHNSON CITY, TN
MARCH 2, 1985—MEMPHIS, TN

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IMPACT OF THE PRESIDENT'S BUDGET PROPOSALS ON AGRICULTURE

THURSDAY, JANUARY 10, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Milan, TN.

The committee met, pursuant to notice, at 9:35 a.m., at the Buford Ellington 4-H Training Center, Milan, TN, Hon. Jim Sasser, presiding.

Present: Senator Sasser and Congressman Ed Jones.

Staff present: Lance Simmons, legislative assistant.

Senator SASSER. First of all I want to welcome all of you and thank you for attending this meeting today. I have been asked to announce that if somebody cannot find a chair, there are additional chairs over here against the wall and just go over and help yourself. There is no charge for those chairs today, so just take as many of them as you want.

OPENING STATEMENT OF SENATOR SASSER

We are holding this hearing today, Congressman Ed Jones and myself, because the preliminary budget proposals that we have received, not officially but unofficially from the administration indicate that 1985 is going to be another very tough year for the American farmer. The administration is proposing $11.5 billion in cuts for USDA programs over the next 3 years.

Now, what we want to do today is find out how these proposals are going to affect Tennessee farmers and what your views are with regard to the status of the agricultural economy here in the State of Tennessee.

Before we begin, I want to express my appreciation to my good friend and your distinguished and able Congressman, Ed Jones. He is a member of the House Agriculture Committee, and chairman of the Conservation, Credit, and Rural Development Subcommittee. Congressman Jones has played a leading role in an ongoing fight to protect the interests of Tennessee farmers. He is a nationally recognized authority on agriculture, and I think generally conceded to be a friend of the farmer not only here in this congressional district, but in Tennessee and across the country.

This hearing is being conducted under the auspices of the Budget Committee of the U.S. Senate. I have been a member of that Budget Committee for the last 8 years. And many members of that committee believe that some of the economic policies that we have seen over the past few years have created a crisis in the agricultural sector of our economy.

INTEREST ON NATIONAL DEBT FASTEST GROWING BUDGET ITEM

These policies have ignited an explosion in the amount of public debt and the extent to which this Government has engaged in deficit spending. The prospect of a $200 billion budget deficit for each of the remaining years of this decade is somber testimonial, I think, to a dubious economic policy. While it took this Republic of ours nearly 200 years to accumulate a national debt of $1 trillion, the policies that we have embarked upon in recent years will effectively triple that amount in 9 short years.

The fastest growing item in the Federal budget is not defense, it is not social spending. The fastest growing item in the Federal budget is interest on the national debt. And this interest component is reverberating throughout the economy.

We have seen some of the highest real interest rates in the history of the country. While nominal rates have been coming down, real interest rates, that is, the difference between the inflation rate and the prime rate of interest, is running at historical highs.

Over the next several months, we on the Budget Committee will be involved in devising solutions to economic problems, and all eyes will focus on the legislative remedies that we ultimately decide upon. So I think it is important that we listen to your views here today, take them back to Washington, and share them with our colleagues on the Senate Budget Committee.

And I am sure that Congressman Jones will wish to share them also with some of his colleagues on the House Committee on Agriculture.

Now, I have long thought, perhaps because of my own personal background, that our farms and our farmers truly represent one of this Nation's greatest resources. According to a Congressional Budget Office study, and I quote:

> Public policy has long acknowledged the risk and uncertainty facing farmers from natural and biological causes and from the relative insensitivity of supply and demand to price changes, public concern for the economic welfare of the farmers and the supply of food and fiber has historically led the Federal Government to play a major role in supporting and stabilizing farm prices and incomes.

Since the dark depression days of the 1930's, the Federal Government has undertaken a greater responsibility in securing the stability of the farm sector of the economy. And perhaps one reason for that was a realization that when there is a depression down on the farm, it does not take very long for that depression to spread all across the country.

I do not need to remind so many of our older farmers here today that the farm economy in the United States was in a depression in the 1920's, some 6 or 7 years prior to the Great Depression that hit us beginning in the early 1930's. That depression took this country almost a decade to recover from.

Over the past 4 years, the farm economy has witnessed an impending economic crisis. Let me just give you some statistics that I think you will find not only illuminating but also alarming.

FINANCIAL DIFFICULTIES FORCING FARMERS OUT OF BUSINESS

Between 1971 and 1979, the total value of American farmland grew by $465 billion. Yet, in the 3-year period between 1980 and 1983, the total value of American farmland fell by $149 billion. If you are getting a little rusty on your arithmetic, remember that a billion dollars is a thousand million dollars.

Last year, more than 6,700 Farmers Home Administration borrowers—and the Farmers Home Administration is the creditor of last resort, generally—6,700 borrowers from the Farmers Home Administration were forced out of business because of financial difficulties.

In Tennessee, we watched the sad sight of 288 of our farmers who borrowed from the Farmers Home Administration going out of business. There were 9,325 Farmers Home borrowers in Tennessee in 1984. Of those little over 9,000 farmers, almost 2,700 of them were delinquent on their payments. This represents about 28 percent of all the borrowers from the Farmers Home Administration here in Tennessee.

Let me give you another statistic. In 1981, the net farm income per farm in Tennessee was $4,572. Well, last year, that net farm income had declined to $1,751 per farm. More than a 50-percent decline in net farm income in the space of a little over 2 years. At the same time, production expenses for Tennessee farmers grew from $1.7 billion in 1979 to $2.2 billion in 1982. This represents a 23-percent increase in production expenses at roughly the same time farm income was falling—net farm income was falling over 50 percent.

And in the midst of what can be considered in the kindest terms a very weak farm economy, we now find the administration proposing substantial changes in farm programs which could seriously work to further undermine the strength of this Nation's farming economy.

On the one hand, we have the Office of Management and Budget under the direction of David Stockman proposing cuts of $11.5 billion in USDA programs over the next 3 fiscal years. On the other hand, we have the Secretary of Agriculture, Mr. Block, pushing hard for passage of farm legislation which will drop many existing farm programs in favor of a so-called market-oriented agriculture policy.

FARMERS PROBLEMS BECOMING BANKERS PROBLEMS

Nebraska is a State that is dominated by a farming economy. And the president of one of the major banks in Nebraska commented on this development just the other day. And I think his remarks are worth quoting here because the crisis in the farm economy is now becoming a crisis in the farm banking economy as well.

The problems facing American farmers are now spreading and becoming the problems of American bankers who lend to American farmers. And here is what this Nebraska banker said. He said:

> Instead of preaching free market, the Government ought to be facing up to its responsibilities. The crippling impact of budget deficits on our farmers simply are going to have to be faced. The Government cannot avoid its responsibility to provide

essential direction to balance production of farm economies, commodities and the demand for these commodities.

The problem with farm credit is our farmers simply cannot meet the obligation of paying very high interest rates at a time when their production costs continue to escalate and at a time when their net farm income is going down.

We are going to have three panels of witnesses today. The first panel of witnesses will be comprised of working farmers. The second panel will include representatives from various farm organizations, and the third panel will consist of representatives who are familiar with farm credit programs. I thank you for coming. And I want to turn the microphone over now to our distinguished friend and my distinguished colleague Congressman Ed Jones.

OPENING STATEMENT OF REPRESENTATIVE JONES

Mr. JONES. Thank you very much, Senator. And I want to say to each of you who are here today that I thank you from the bottom of my heart for taking the time out from your schedule to be here for what I consider to be a very, very important hearing. We brought the hearing to you.

And I am indebted to Senator Sasser for the fact that he would take the time out to do this with his Senate Budget Committee field work. Not very often can you get a U.S. Senator to spend the time to come to a locality such as this is to conduct a hearing.

But, my friends, this situation is so serious and so important that I feel like that more and more of you people need to be heard from. And I do appreciate very much the Senator inviting me to join him in this timely and important field hearing of the Senate Budget Committee.

And I have prepared, Senator, a handout here for the people who are here today, and care for it, that would help you to know about some of the facts as far as agriculture is concerned and what we are facing today. If you would like it, my staff has it and they will be glad to see to it that you get one.

Those of us here in Tennessee are vitally interested in the well-being of agriculture, and are most fortunate to have Jim Sasser in the U.S. Senate playing a vital role in what I consider to be the most important industry in the entire United States.

Not only is Senator Sasser on the prestigious Budget Committee that will establish our overall spending levels, he is also on the Appropriations Committee. And that is highly important to all of us. So, you see, those of us on the Ag Committee in the House can authorize all we want to. And we can look at our friends all over the place to help us out when the time comes for appropriations. But we can depend on people like Jim Sasser to give us the money.

Overall, Tennessee is lucky to have Jim Sasser in the Senate. And farm people are particularly fortunate to have him on the Budget as well as the Appropriations Committee.

FARM PROGRAMS TO BE UNDER TREMENDOUS PRESSURE

Without any doubt, Federal farm programs are going to be under tremendous pressure when President Reagan swings his budget ax next month. Congress has no alternative but to review each and every one of USDA's activities. And we must weigh the merits of each program in the context of the current budget situation.

However, I can assure you that I intend to do all that I can to see that farmers are treated fairly in the budget process.

In addition to the budget, Congress will also begin writing a new 4-year farm bill to take effect at the end of 1985. My friends, this may be the most important farm bill to be enacted in the last 50 years because it comes at a time when agriculture has not been in a worse economic shape since the Great Depression.

The long-term welfare and strength of rural America is a matter that must be of concern to the rest of our country. Agriculture and agribusiness remain this Nation's largest and most important industry. American farmers, though diminished in numbers, continue to be the mainstays of our national economy. And a good example of this is that agriculture constitutes 20 percent of our Nation's gross national product. There are 23 million Americans who have jobs due to American agriculture.

The productivity and the efficiency of American agriculture remain the marvel of the world and the miracle is a direct result of the independent and resourceful family farms in this great country of ours. But, my friends, the marvelous system is being strained today as never before by a cost-price squeeze that is wringing the economic life out of thousands of farm families.

DESTRUCTION OF FAMILY FARM WOULD CHANGE WAY OF LIFE

You can talk all you want about the cost of Federal price support programs. But if the family farm system is destroyed, the American way of life will be radically transformed to some new order that no one here today can predict.

I hope the new Congress considers these things as we move ahead this year on the next budget for the farm bill. If we only concentrate on David Stockman's ledger books and ignore the people who make the family farm system work, then we will be cutting off our nose to spite our face.

I am looking forward today to the testimony we will be gathering this morning. Meetings such as these are invaluable to the legislative process. And what we hear here today will help build a strong record which the Senator and I can use in our efforts on behalf of rural America as we proceed to write a bill in the new year.

Farm debt today is the highest that we have ever had. It is $215 billion, and it has doubled in the last 5 years. Interest costs are higher today than net farm income is. Production credit associations and Federal land bank associations are scared to death. They lost about $250 million in the past year, and 1985 does not look any better.

Commercial banks are being pushed by the FDIC to tighten on farm loans due to reductions in land values and negative cash flow. The Farmers Home Administration has slowed down from processing many of its applicants who have applications before them for loans as well.

So you see that it is hard to obtain credit with the situation facing us as it is. And the time to produce is just around the corner. The time for operating loans is not far away. This is a situation that we are going to hear more about today. And farmers today without a doubt are suffering the worst farm economy since the Great Depression, as I emphasized earlier.

Thank you, Senator.

Senator SASSER. Well, thank you very much, Congressman Jones, for those very timely and I think well-considered and thoughtful remarks.

We will begin with our panel of farmers today. And let me introduce them, beginning from my right moving to my left is Jim Pace from Martin, TN. Mr. Pace is a farmer whose primary crop is soybeans and his farming operations are located in Weakley and Obion Counties. Jim Pace is a member of the Martin Rotary Club and the Tennessee Soybean Association. He is also a member of the Memphis Agriculture Club and has represented Weakley County on the Agribusiness Committee of the West Tennessee Jobs Conference.

Next we have Mr. Dale Woods. Mr. Woods is a farmer from Dyer County. He is a member of the Dyer County ASCS. And we are delighted to have him here with us today. And he says he is going to tell it like it is.

Next we have Mr. Linus Thorton who owns a farm in Gibson County where his primary crops are corn, soybeans, and wheat. He has been a farmer all of his adult life for 25 years. And farming represents 100 percent of his yearly income. I am told Mr. Thorton has always lived on his farm. In fact, I know he has, and he is a little worried about the prospects for the future.

Next we have Mr. Thomas Mason, Sr. Mr. Mason is a farmer from Mason, TN, and his primary crops include soybeans and cotton. And his farming area is located in Covington and Mason in Tipton County. Mr. Mason attended Tennessee State University and is a former member of the State ASCS Committee.

We will open up this hearing to the audience for your comments on questions at the conclusion of the panel testimony. Cards have been distributed if you want to fill out your name and tell us what you would like to talk about and give them to Tommy Allen. I think everybody knows Tommy Allen. He will be circulating throughout the crowd. And so we will be glad to get those.

Why don't we begin with you, Jim Pace, and then we will move from my right to left.

STATEMENT OF JIM PACE, MARTIN, TN

Mr. PACE. Thank you, Senator Sasser.

Senator Sasser, Congressman Jones, I appreciate this opportunity, and I especially appreciate your concern about our critical situation in agriculture.

I think there are a couple of key words that I might mention today. One is exports with all the ramifications that that has and the high dollar and things of that nature. And I believe that in the long run, exports are the easiest and quickest path to profits. And I think that is probably the most, that is what we are all looking for in agriculture. We are not—why, we have not seen many lately, but we are still looking.

Some things that I feel like that profits would certainly bring would be a recovery in land prices. I firmly believe that that is agriculture's historic underlying strength, and certainly cash flow at reasonable levels. Those two things would solve many of our problems in agriculture.

The concerns, a few of them that I believe we all have in agriculture are the erosion of the soil. Probably as equally as important and something that we talk about a little bit but not nearly enough, probably, is the erosion of our rural economy and of our rural communities. Perhaps even more important than that is the loss of our rural young people in agriculture. And, of course, that is a loss to our basic industry. We sometimes forget that also. And our basic industry, just as steel and things of that nature, which of course is agriculture.

MORE EFFECTIVE SPOKESPERSONS NEEDED

A couple of suggestions that I might make just to try to recruit, develop more effective spokespersons for agriculture and agribusiness. Let me give you an example.

I know Congressman Jones and Senator Sasser knew this gentleman. A tragedy, I feel, that rivaled our embargoes was the untimely death of Congressman Jerry Litton from Missouri, a most effective spokesman from agriculture. He had the ability to explain agriculture and our problems to the American consumer. And I am convinced, I am not sure whether I am, I do not have any doubt. We do not have any, enough people that have the ability to get in front of nationwide TV as Congressman Litton was able to do and explain our problems in agriculture.

I believe that there are some folks out in corporate agribusiness that are equipped to explain the problems that we have to the American people. If some of our agribusiness concerns would spend just a small portion of our advertising budget in Fortune, some popular magazines, that the American consumer and the American business community sees. We all read Successful Farmer and dealt with farm press and publications like that and see all these fine ads that are trying to sell us tractors and chemicals, but the American consumer does not read those ads. And I do not think they understand the impact of agriculture and the critical situation that we have in 1985 and the help that we need.

I believe that it would be real good, and I am not going to pick on Secretary Block because I think some of our other Secretaries have had this problem. Congressman Jones, I am not going to put him on the spot and ask him to confirm this thought, but I have always felt that the Secretary of State had more impact on American agriculture than the Secretary of Agriculture did. And I think maybe that may be the same problem. I understand Secretary of Agriculture Stockman may have this same clout. I think that is bad. And I know it is bad for us. And I think it is bad for our Nation.

I do not think this is the time for a weaning out of the agricultural budget because I am afraid that we may have what we like with our herbicides, and that is a clean kill. I am afraid they cannot stop the dive that we are all taking in production agriculture.

I appreciate this opportunity.

Senator SASSER. Thank you, Jim.

We will hear next from Dale Woods.

STATEMENT OF DALE WOODS, DYER COUNTY, TN

Mr. WOODS. First, I would like to say I think it is a privilege for each of us to be here to discuss our problems. You know, in some nations, we do not have this privilege to discuss this. But I think each of us ought to be thankful for this.

But to my problem. As I started to work on my crop loan for 1985, FmHA, I was instructed to lower my projected yields.

Senator SASSER. Why don't you pull that mike over closer to you?

Mr. WOODS. OK.

I was instructed to lower my projected yields that I had used in prior years. On grain sorghum, from 80 bushels to 54 bushels; and soybeans, from 35 bushels to 25; on wheat, from 40 to 37; and corn, from 90 to 78. In checking with the local FmHA office, I was instructed—informed, rather, that this came from Washington, DC.

I completed my paperwork and turned my loan in to the local office. My projected net profit was down to zero. I refigured my loan using the past yields and came up with a projected net income of $19,500. I feel confident that my loan will be approved because of unused equity. But the thing that I am very much afraid of is thousands of farmers will be turned away on this action.

In my opinion, this is one way to pull the rug out from under thousands of farmers in this Nation.

Senator SASSER. Thank you very much, Dale.

We will now hear from Linus Thorton.

STATEMENT OF LINUS THORTON, GIBSON COUNTY, TN

Mr. THORTON. Thank you, Senator Sasser.

I first want to tell you how much I appreciate being here and getting asked to come to this. And I also want to clarify a statement that Senator Sasser made as far as my farmer's practice goes. That is in the past tense. I think everybody is aware of that, but I have no regrets.

And I cannot say anything much that hadn't already been said by Congressman Jones and Senator Sasser and these other gentlemen here. But I just look at this budget deal, it sort of reminds me of something I have looked at for the last year. Kind of looks like a reorganization plan, you know.

So I think what we really need to do, I know that everybody is aware of what the farmer needs and what the farmer needs to get. I do not know what will work. I can tell a lot of people some things that will not work. I think I can document that, but we need to some way have some kind of representation of what of this we want to save, not how much more we want or what we need. I think we are all aware of that.

CONCESSIONS NEED TO BE MADE

But we are going to get to the point. What can we keep of what we have got? We are going, it looks like that with the national deficit like it is, there has got to be some cuts made. It is no different from any other industry or organization, but we have to start throwing some things out. And I think that to keep the farmers and the ranchers in this country that we are going to have, and this country needs these people, we are going to have to make some concessions. Everybody does. But we need to figure out what we want to save instead of what we need and where we have been. I think everybody knows where we have been.

I think 20-20, our hindsight is all 20-20. We need to see what we can save out of this. I have been familiar with trying to save something. I know something about that. And a lot of people do not really realize what that is until they get to that point.

I know this morning on TV the American farmer does not seem to be in near as much demand in America as he is in other places. The Peace Corps is just emphasizing so strong how they need American farming technology to go help people.

A statement was made by somebody we all know real well that you can teach a man to fish and you can feed him one day. And you can teach him to farm, and he can feed himself forever. Farming technology and the things we have learned since Columbus came over here is not surpassed by anybody. I am not sure that the American farmer and rancher has not saved some lives with agriculture technology.

So we have got to save. I do not know the answer, but we have got to save what we have got. And it is a problem for all the things that have been mentioned to financing the cost of production, our target prices, our loan rates. Everybody has got an opinion of that. We need the reputation, I think we have got good reputation, but I think the consuming public needs to understand more of the problems that we are faced with.

WE MUST NOT RUN OUT OF REDNECKS

We are going to run out of rednecks is what is going to happen. And I made this statement a little earlier. Now, I tell you what you cannot do. You cannot run out of rednecks. It is hard to do. He will try, he will sit down and tell himself that it is not going to work. But there is never been anybody on any type of drug that gets on any more of a high than a farmer does when he is, everything is going good and he is planting. He comes in, his crop is up, and it is clean. It is high that you are on that you cannot experience that unless you have been there. I mean, there is no way. And he does it now days more realistically than ever before. He puts everything he has got on the line 1 year.

Now, who in the world else has got, I do not know. It has been termed a lot of different things. Who has got that? But he loves it. You have got to like to farm. You do not farm because you pick out this is the way I am going to make my million dollars. You farm because you like it. You got to like it. You got to love it. And you can take the man off his farm and off the ranch that he loves, but you cannot take that love of the land and farm out of him. You cannot do that.

So we have got a resource in this country that is not surpassed by anybody in any other country. That—I think that is what we are all here for today to see what needs to be done. And I think that we have got to back up and look at what we can save out of what we have instead of asking for more.

I know we need more, but you get that point. And I thank you very much for this opportunity. And that is about all I can say about anything because I cannot figure it out myself.

Senator **Sasser**. Thank you, Mr. Thorton.

Mr. Thomas Mason, we will hear from you now.

STATEMENT OF THOMAS MASON, MASON, TN

Mr. **Mason**. Mr. Sasser, Congressman Jones, I am very grateful to be asked to be on this panel. However, I do not have a lot of notes that I could read off to you the things that maybe needs to be said. I am not a genius by any means to say the right things that could be carried back and changed, this projected budget. And I wish I could. But I can speak for farmers in the area in which I live.

Things are in very, very bad shape in that area. We have a lot of things that have confronted us through the past years, production costs and low prices for commodities and nature.

We have tolerated all of these things. But still, farmers have the willpower to move forward providing they can get the assistance.

FARMERS NEED THE FEDERAL GOVERNMENT

As I look at this projected budget, it frightens me very much. If this come to pass, I can see where a lot of farmers are going to be lost. The only hope for the farmers today is the Federal Government. And it seems as though that they are trying to back out and turn it back to the local banks.

The farmers were the ones that helped the banks to get where they are, but the banks now want to turn their back on the farmers. The farmer, a person can go to the bank and buy a $15,000 car, and the bank will finance it readily. But if you go up there to borrow some money for farming, they do not even want to hear you.

All of this is really frightening to me because of young farmers. I farmed all of my life. I have been successful in farming until the last few years. The last few years has really put me behind. And when you get behind with the high interest rate, it is hard to get even.

But, as I think about the United States of America, we are in trouble is a nation because of the deficit. Farmers are in trouble because of deficit. So we really need a hand to help the hand that feeds the world. We need the Federal Government. And if they try to leave us out, then all of us, I think will be doomed.

We realize that the farmers, only about 3 percent, if my statistics are right, I do not know, maybe it has fallen from that. At one time it was 3 percent. Our Representatives are only 3 percent in

Washington. We realize that you have a hard time in trying to get these legislatures passed because of the minority in number.

But we certainly would like very much, and we know that you done a good job in the past. But you know in politics sometimes we have to exchange one thing for another. Sometimes when you want a problem solved, you have to go to your friends and they help you solve your problem. And then when they want one solved, they have to come to you.

TOO MANY YOUNG FARMERS BEING LOST

But I am wondering about young farmers. Maybe I do not have many more years to farm. And it does not matter too much about that part. But we are concerned about those who are left. We are concerned about the future. We are concerned about the young people. We are losing too many young farmers. And that is our only hope. If we lose all the young farmers, then we will not have anybody to farm.

I think according to the record, the average age of farmers are probably in the late 60's. That means that you have a lot of farmers over 70 in order to get an average of 60. You probably have some 20. Now, if all of these young farmers are turned down, then that means that we do not have anybody to be able to feed the people.

And I think with this meeting and these types of meetings need to really be held, and I am sure that you do not have time to do it, but I think the whole country needs to be aware of some of the things that is happening. Now, things vary from county to county, from State to State. We will—the area that I lived in suffered another drought this year along with last year. It was a strip maybe about 14 miles long.

So you can see that maybe one farmer can make it on this side of the road, and on the other side of the road, he is failing because of the things that he cannot help. And I have stood in my door many times and saw the rain across the street, across the road; and over on this side was dry. So we cannot compare farmers in all respects because we are faced with different situations.

And I want to say again that it is a pleasure for me to be here. I hurt my foot yesterday and I worked on it all night that I would be able to walk or put on a shoe today. And I am so grateful that I was able to come to meet all of you. And I hope that from this meeting something will be done that will help keep the farmers in business.

Thank you.

Senator SASSER. Thank you very much, Mr. Mason. And we are delighted that you were able to get your swelling down in your foot so you could be here with us today because I think you made a meaningful presentation.

Congressman Jones, if I could just make a couple of comments, and then I will turn it over to you.

FARMERS HAVE MADE THE SACRIFICE

Jim Pace, I think you hit the nail on the head when you said that something needs to be done to let the American people know what the American farmer is doing for them. Now, they need to know about the sacrifice of the American farmers.

We have had years here in the past 2 or 3 years of relatively low inflation, and we are delighted at that. But there have been some people who paid the price for that relatively low inflation. We have been lucky in some respects. We have been lucky in that oil prices have been going down, stabilized, and have gone down for the past several years.

But one of the essential ingredients of this low-inflation rate is low food prices, food prices going down. So we have had in essence the American farmer helping subsidize the low-inflation rate with low food prices.

Mr. Mason made the comment that farmers need some help from the Federal Government. There is a school of thought going across Washington now gaining popular support, I suppose, from Secretary Block and others that market forces ought to determine farm prices; and that we ought to turn the agricultural economy in this country over to the market.

Now, I thought we learned our lesson about that. I thought we learned it a little over a decade ago when Secretary Ezra Taft Benson told us to plant fence row to fence row and we saw what happened.

The American people in this country have a vital stake in seeing that we have a stable food supply. In order to have that, we have got to have a stable agricultural community. And I am afraid if we turned over to purely market forces, what you are going to end up with are fewer and fewer farmers. No young farmers, as has been pointed out here today. The youngsters are leaving the land. And pretty soon, all we will have will be a few large corporate farms and many of them will really be owned by the food processors themselves.

And what happens then to our low food prices? What happens than to our inflation rate? The American consumer, Jim Pace, then becomes a captive consumer.

And it might be well if there was some way that this information could be transmitted abroad. I think then that many of these Senators and Congressmen who come from districts and States where they do not have an agricultural community, as Thomas Mason pointed out, would be more sympathetic to Ed Jones or myself when we try to talk to them about what has happened—what is happening with our farmers back home.

Well, I made a value judgment here that I should not make because I want to ask you a question.

The recent proposals that we have seen reflect a market orientation toward farm programs. Now, there are unique variables that characterize the agricultural community such as dependence on weather. Mr. Thorton said that a farmer essentially lays everything on the line every year when he tries to get his crop out. And that is essentially a fair statement.

SUBSIDIES NEEDED FOR SURVIVAL

Do you think it is wise for us to move in the direction of a pure market orientation with the farm economy and simply abandon price stabilization policies that we have followed for the past 50 years or income enhancement programs that we have tried to follow in the past 50 years?

I would like to get the reactions of some members of this panel to that question. Who wants to go first?

Mr. PACE. Seems to me, Senator, when you are——

Mr. SHOAF. Let me answer that question.

I am John Shoaf. I have a farm, a tract of land. My boy does and my nephew. I mean, there is——

A VOICE. Give him a microphone.

Mr. SHOAF. I mean there is no way for the Tennessee farmer to farm without a good target price and a deficiency payment under the current farm program. We have got to have the Government subsidies to survive.

Now, I saw one program on here that I would recommend temporarily. In other words, the FHA lending money for land. In other words, why go out here and encourage a young man to buy a farm when you encourage him to buy a loss that day. I say eliminate that temporarily until the interest rate straightens out.

But there is not any way in America for any of us farmers to survive without these payments. And my message is to go back to Washington and fight to the bitter end for the current program.

Senator SASSER. Well, that is what I wanted to hear. [Applause.]

Anybody else on the panel want to comment here?

Mr. THORTON. Well, I think that is what I said a while ago. Mr. Shoaf is—I know Mr. John. He is a good farmer and a fine fellow. And I think that, that is what I said a while ago. We have got to, we all know what we need. But what we have got to do at this point is to save what we can and see what we have got.

And we have got a decent farm program. I know a lot of people do not agree with it, but we have got to almost have this farm program of acreage reduction, this Soil Conservation Program, we need that bad. I mean, the United States of America needs the Soil Conservation Program bad. And I agree with Mr. John on investing in a loss. I have got to agree with that. But these farm programs, I think—the ASC programs, the acreage reduction, which will help—like you said, Senator Sasser, that fence row to fence row business, we have already proved that will not work.

BASES SHOULD BE SET

And it took a good while for farmers in the area to get back in the base program, to have a base to set their farm, some farmers have lost all their bases, they lost every kind of Government protection that there was because they did go fence to row to fence and quit turning in their production. And there has been a lot of yields established by farmers and bases set. And I think that that is where we need to go, to try to keep the farm programs that we got today. We may need better ones, but we sure do not need any worse ones. And I think Mr. John made a fine point.

A VOICE. Senator, may I say something?

Congressman Jones, distinguished guests, it reminds me of what Winston Churchill said one time:

"There never has been so many people owed so few."

He said that during World War II. We are few in number. We are feeding the whole world. And it reminds me of what Mr. Churchill said.

Senator **Sasser**. Churchill said, Congressman Jones, "Never have so many owed so much to so few."

Mr. **Shoaf**. I want to make one other comment.

And I will have to ask this to Ed Jones: Ed, I have known him forever, I will say this, if this is a true statement, did the Federal Government finance a project in Arizona to run a river backward 370 miles to make more of that desert?

Mr. **Jones**. Yes, they have been doing that for a good many years. Not only that one, but some more, too.

Mr. **Shoaf**. Well, I think we have got an oversupply now. Why irrigate more of that damn desert out there when we have got enough now?

Mr. **Jones**. You do not live in Arizona, John.

Senator **Sasser**. All right. I want to turn it over to Congressman Jones.

Mr. **Jones**. I am going to be very brief because I see you folks very often and I hear from you very often. But let me emphasize this one fact. Together, we might survive; but divided, we do not survive. The majority of the farm organizations in America today do not agree as to what ought to be done with agricultural programs. And as long as we are that way, you cannot go to a Nashville, TN, legislature or to Washington, DC, and get a program that you can live with.

I have been in Congress 16 years and I try my dead-level best to get a farm program that we can live with. But I see us go up there divided all over the United States And as Thomas Mason said, with less than 3 percent of the U.S. population on the farms, there is no way to get a farm program that we want.

PRESENT FARM PROGRAM THE POOREST EVER

I voted against the 1981 farm bill. I was one of the few members of the agricultural conference between the House and the Senate who will stand up today and say that it was a right decision because this is the poorest farm program we ever had. Whether we admit it or not. And all we had to do was to defeat the thing. Then come back, and nobody, nobody could have put up—no administration, no matter who it is, or no U.S. Senator, or no Member of Congress could have remained there with the 1949 permanent legislation.

The Treasury could not have lived with it. The American farmer would have been glad to have had it in most cases. We could have gone back together and have won. But they didn't have the guts to do it.

Senator **Sasser**. Gentlemen, thank you very much. We are going to move on now to the second panel. I want to thank our panelists for appearing here today and thank Mr. John for appearing here.

I am reminded to ask everybody who desires to speak to hold up their cards so Tommy Allen can collect them.

Our next panel is made up of Buddy Carlton. Buddy is the official spokesman for the American Agricultural Movement in the absence of Tommy Willis. Tommy Willis is currently attending the AAM convention in Oklahoma. Where is Buddy? Is he here?

Buddy is from Brownsville. He is a member of the Haywood County Commission. He is also a member of the Tennessee Feeder Calf Association, the Tennessee Soybean Association, and the Farm Bureau.

We also have Doctor—come on up here, Buddy, and have a seat.

We also have Dr. Thomas Whatley, associate dean of the University of Tennessee Agricultural Experimental Stations. Mr. Whatley received his doctorate in agricultural economics from Purdue University in 1953.

He is the former head of the department of agricultural economics at the University of Tennessee Institute of Agriculture. He has published over 20 articles dealing with farm management. He was the first professor to receive the distinguished service award in agriculture at the University of Tennessee in 1964.

Also, we have Mr. Page Box. We all know Page. He received his master's degree in agricultural economics from Mississippi State University. I did not know you had a master's degree, Page. He is the past president of the Tennessee Soybean Association, and for the past 11 years has farmed and operated a John Deere dealership in west Tennessee. He is a member of the Tennessee Soybean Association and a director of the American Soybean Association.

And we also have Pam Farmer. Pam is the State president of the Future Farmers of America. She is a freshman at the University of Tennessee, Martin campus, majoring in agricultural education. And she represents more than 14,500 Tennessee young people who are interested in farming.

Dr. Whatley, why don't we again go from right to left and start with you.

STATEMENT OF DR. THOMAS WHATLEY, ASSOCIATE DEAN, UNIVERSITY OF TENNESSEE AGRICULTURAL EXPERIMENTAL STATION

Dr. **Whatley**. Thank you, Senator Sasser and Congressman Jones. It is a privilege to be here today. And I am going to attempt not to duplicate too much of what has been said, even though this is very difficult.

Since I am in research, I want to mention the Hatch Act which provided for research in agriculture because I think it means something to producers, to those who are supporting agriculture whether they be process or if they are not, in terms of the dilemma that we face.

The Hatch Act which was passed in the 19th century was passed with the idea of providing a research base in agriculture so that agriculture could compete with other interests. For example, General Motors can conduct their own research. But as individual farmers, you are unable, due to limited resources you have, to be able to do this.

Now, as we look at the total picture in agriculture, we have thousands of farmers competing in the market. You do not set the price that you get for your soybeans as an individual, nor do you set it for cotton or tobacco or any other crop. It is determined not exactly in the marketplace but when you go to take that product, you are given a price.

On the other hand, when you go to buy your tractor or your other things that you may need, you can do some bargaining and sometimes you can get some discounts. But you cannot control that price. So this has led to our farmers being caught all the time, almost, in a cost-price squeeze.

Now, I read an article just last week, I believe, that indicated that food prices probably would increase 4 or 5 percent next year. In that same article, it indicated that the price that farmers would have out of that food package would not be any greater than it is this year. And I think this is part of the dilemma that we face.

We are facing some very serious problems that have been mentioned such as the huge deficit we have, the high interest rates, our struggle to move our agricultural products into foreign markets. We look at the picture, approximately one-third of our acreage needs to move into exports. And as we look at Tennessee, we produce soybeans, cotton, tobacco, and many other products. And if we could move these products into this market, of course, this would help the situation a great deal.

FARMERS ARE IN A COST-PRICE SQUEEZE

Now, as we look at this cost-price squeeze, I was given a figure that indicated that out of every dollar our average farmer sells in products, 80 cents of that represents cost. This is part of a cash-flow problem that we face. If you think in terms of a 10-percent decrease in that price with an 80-cents-out-of-every-dollar cost, you can immediately see that you could reduce income by 50 percent to the farmer.

And I think this is critical. And I think as we look at legislation for next year, the program that is proposed or looks like it is coming before us, that this kind of change could be brought about in terms of net income. And we cannot stand such a drastic decrease in 1 year. If we are to make adjustments, I think they must be long term, well known to farmers so that they can apply efficient methods and shoot toward those established prices.

In the short run and in the long run, as indicated, about one-third of our total people employed in this country are associated with agriculture. Our machinery dealers suffer in situations like we are in. Our credit people suffer. We have got all kinds of problems and there is a big group.

Now, I was thinking a few minutes ago in the discussion, I wonder if Secretary Shultz and Mr. Gromyko when they were meeting, if Mr. Gromyko, being the type of individual, shrewd, if he could have bought our agriculture that we have today, I feel confident that he would probably have spent billions of dollars, even if he had to take them out of the military to have this.

And I think that our general public is not aware of the importance of a strong agricultural economy in terms of meeting our deficits and trade, balance the trade payments and so forth as we go ahead.

LONG-RANGE PLANNING NEEDED

Now, I do believe as we look ahead that in terms of this farm bill that we must have long-range planning that our farmers and others can understand. I am not sure that, the adjustments that we need to make, if it means some change in prices to meet world market prices; that these adjustments can be made in 1 year, maybe not even in 5. I think we need to look over a rather long-term span.

In regard to the situation that all of us face as agriculturalists, whether we are bankers, whether we are researchers, extension workers, or whatnot, I think we all recognize that we are facing difficult times. We must work to decrease our deficit. We have a responsibility. All of us, regardless of whether we are farmers or public servants or whatnot, must be efficient, must set high priorities and try to streamline our operations.

I would like to say one thing since I am involved in research in regard to this area. I think that we cannot abandon or drastically decrease our efforts in finding out how we can control soil erosion in west Tennessee and other places, for example.

Some of our preliminary work indicates that through no till, we can maintain farm income while reducing soil erosion. We have found that in no till that we may be able, we may have in some instances a lower population nematodes than where we do not have a double profit. We need to investigate this more knowing that nematodes are a serious problem.

We look at protecting our food supply. We must do everything to assure that our consumers have a safe and an adequate supply of food. Biological controls are things we are looking at. We hear a lot about genetic engineering. It is sort of a buzz word, but we must be looking at research areas that will not solve the problem this year, a decade from now, but probably will be in the forefront in the 21st century.

One of the main concerns is—that has been mentioned is how do we really bring in the potential efficient young producer as a farmer into agriculture. We cannot afford to stop that spigot of new people moving in to take the place of those of us that are going to be moving out some day.

I appreciate this privilege of being here. And I want to commend the two of you for sponsoring this. Thank you.

Senator **Sasser**. Thank you very much, Mr. Whatley.

Ms. Farmer?

STATEMENT OF PAM FARMER, TENNESSEE STATE PRESIDENT, FUTURE FARMERS OF AMERICA

Ms. **Farmer**. Thank you very much, Senator Sasser, Congressman Jones.

It is a pleasure to be here today representing what I consider to be a very exciting part of our agricultural community, and that is the future farmers. Not just our organization, but the young people across the State and across our Nation who are interested in agriculture.

Today more and more young people are finding it very difficult to return to their family farm. It is perhaps a dream in the back of their mind, but a dream that they realize they will never be able to reach. And it is not necessarily because they do not want to. Because they find it financially not able for them to go back and enter that area.

An example of this is from an ag-economics class that I took last quarter at UT Martin. In that class, it was pointed out that of the graduate students at UT Martin, which consist largely of west Tennessee, of the graduate students in agriculture, far less than 10 percent actually returned to the farm. They perhaps go into areas of agribusiness, but they find it impossible to return to that family farm.

TRAINING DIFFICULT TO RECEIVE

Also a problem that I see facing young people in agriculture is that it is becoming more and more difficult for us to receive the training that we need to be efficient agriculturalists. A lot of this has to do with the highly academic situations that we are being placed in in our high schools. We are told that we have to take 4 years of math and 4 years of science; and because of this, it leaves very little room for programs such as vocational agriculture.

Now, maybe that is not important to our Federal budget. But in the long run, that will be important in agriculture because you are going to find yourself with less highly trained individuals who are capable of carrying on the productivity that the American farmer has established.

A statistic from the Department of Labor says that by the year 1990 that we will be faced with a severe shortage of highly trained individuals to take over this agriculture field. We have already been made aware that the age of farmers in our State is around 60 years old. Well, that is kind of depressing for young people because we see that we are not going to be able to get involved and that our farmers are dying out.

Of course, I do not have the answers. None of us do. But I think that the young people need to be given an incentive to get into agriculture, to make it, to continue to be the feeder of this world and the important industry that it is.

Thank you.

Senator SASSER. Thank you, Ms. Farmer.

Buddy Carlton.

STATEMENT OF JAMES T. (BUDDY) CARLTON, HAYWOOD COUNTY COMMISSION

Mr. CARLTON. Thank you, Senator Sasser, Congressman Jones.

I would like to thank both of you all for the privilege of being here today to speak to you.

I am a little inexperienced in this. But concerning the administration's proposed cuts in our agricultural program, I would like to speak toward three of these. I have some considerable concerns about most all of them, but three primary ones.

PROGRAMS NEED TO BE CONTINUED

And the first is the elimination, termination of the agricultural conservation programs and the research and extension programs.

And I would like to speak from my personal experience. I have farmed for the—my entire life. Back in the mid-1960's I got caught up in this fence-to-fence farming, lack of soil conservation. The early 1970's, I realized what I was doing. I took advantage of the assistance, the financial assistance and the technical assistance that these agencies offered.

At the present time, I have got my farmland in above average condition as far as controlling erosion. It is very productive. And I think that these programs need to be—I am not saying that maybe they do not need to be scrutinized and maybe some funds cut off to some of the not-so-necessary departments, but there is no question in my mind these departments need to be continued.

The other one that I would like to address is the financial assistance the farmers receive from the Government. Two of these, one is the elimination of the, I forget what it is titled, the farm ownership loans. I have got several neighbors that have been able to participate in this. And if it had not been for these loans, they would not have been able to start farming. And they have been not exceptionally productive, but they have been productive enough to keep their obligations met. And if we can get any stability in agriculture, these people will make productive citizens and farmers.

The other one is shifting the operating loans to the 70- to 90-percent guarantee. Now, I am not that familiar with what has happened in the past, but I can see that if these loans are unsecured by the Government and placed in the banks' hands, that I know my local banks are going to be very reluctant to gamble anywhere from 10 to 30 percent on these loans. They just will not participate in these loans. They frown on agricultural loans today. And without a loan being totally insured by the Government, they are not going to participate in them.

PRICE SUPPORT PROGRAMS

And last, I would like to make a few comments about our price support programs. The proposed suggestions in this thing is of lowering the target prices and deficiency payments, and lowering our loan rate. My suggestion is for the Government—Federal Government to take control of this thing, establish loan rates that are somewhere close today what our target prices are. In doing this, this will eliminate this controversial deficiency payment.

I realize that when you—when we fix a price like this that we have got to have strict control on our production. If it means producing what we need in this country, let us set the acreage for us to produce that. Surely with the expertise and the knowledge that we have got in this country, we can find a place to sell this product and export this product. This will increase agriculture.

If this proposal does go through, of lowering our loan rates—we have already got our rates set below the cost of production—if these rates are lowered, I really do not see any practical way for us to keep farming. Right now at the present time, we are, you might say like on a roller coaster. We have been on a roller coaster for the last 15 years. We have had highs and we have had lows. And some of the ones that have been fortunate to get off on the highs are doing pretty well. But I am afraid most of us have been getting off on the low down there. And this low is below our cost of production.

I reckon I am one that tries to plan my business today and for the future. This proposed agricultural program with cuts in it, I really do not see where we have any present. And I see no future at all in it. And again, I would like to say thanks.

Senator SASSER. Thank you, Buddy.

[The prepared statement of Mr. Carlton follows:]

TESTIMONY OF

JAMES T. (BUDDY) CARLTON

BEFORE THE

SENATE BUDGET COMMITTEE

CHAIRED BY

SENATOR JIM SASSER

JANUARY 10, 1985

MILAN, TENNESSEE

Senator Sasser and Congressman Jones, I am Buddy Carlton, a farmer from Brownsville, Tennessee.

I appreciate the opportunity of appearing before you today to relate the impact that the administration's proposed cuts in farm price supports, farm credit programs, and soil conservation programs will have on farmers and their future.

The Agricultural Conservation, Inspection, and Research Programs, ones that have conserved our soils, controlled the quality and quantity of our food, and assisted in the continued increase of productivity from our soils and our people should by no means be terminated. We have a responsibility to our ancestors, ourselves, and our descendants to protect and conserve this great natural resource.

The proposed changes for FmHA, for all practical purposes, will terminate the agency for farmers. There would no longer be a lender of last resort, which for years has helped many farmers back to financial stability. In years past, it has helped many young farmers get started who never could have had

THE OPPORTUNITY TO FARM HAD IT NOT BEEN FOR FmHA. WITH THE ELIMINATION OF THE FARM OWNERSHIP LOAN, THE YOUNG FARMER PROGRAMS WOULD VIRTUALLY CEASE TO EXIST.

THE CROWNING BLOW WOULD BE THE SHIFTING OF THE OPERATING LOANS FROM THE INSURED TO THE 70-90% GURANTEED. THESE GURANTEED LOANS NEVER HAVE WORKED AS CONGRESS INTENDED. TO DATE, WHEN USED, THE VAST MAJORITY OF BANKS AND PCAs HAVE USED THESE LOANS AS A "BAIL-OUT" FOR THEMSELVES ON LOANS WHEN THEY ALREADY WERE FACED WITH POSSIBLE FORECLOSURE ACTION, AND NOT AS A MEANS TO FINANCE THE AGRICULTURAL COMMUNITY.

ANY FINANCIAL INSTITUTION (BANK, PCA, AND F.L.B.) WILL NOT MAKE A LOAN WHICH THEY CONCEIVE TO BE RISKY UP FRONT, EVEN IF 70-90% IS GURANTEED. IT WOULD NOT BE GOOD BUSINESS TO LOSE THE 10-30% WHICH IS NOT GUARANTEED. THEY ALSO DO NOT WANT TO BE THE ONE TO PRESS FORECLOSURE PROCEEDINGS IN ORDER TO COLLECT THE 70-90% AS IS REQUIRED UNDER THIS AGREEMENT. THIS IS WHY THIS TYPE OF LOAN HAS NOT BEEN WIDELY USED AND WILL NOT BE.

THERE ARE PEOPLE, MANY OF WHICH ARE FmHA BORROWERS, WHO WILL SAY THAT THEY WISH FmHA HAD NEVER BEEN CREATED. THIS IS

DEBATABLE, BUT IT IS FOR SURE THAT TODAY FMHA HAS BECOME A WAY OF LIFE THAT IS ESSENTIAL TO MANY PARTS OF THE COUNTRY. THERE ARE PLACES LIKE THE MISSISSIPPI DELTA AND THE HIGH PLAINS OF TEXAS WHERE 50% OR MORE OF THE LAND IS FARMED WITH FMHA FINANCING WHICH WOULD NOT EXIST WITHOUT IT.

THE REDUCTIONS PROPOSED FOR FMHA AT THIS TIME WOULD BE "PENNY WISE AND POUND FOOLISH", FOR NEITHER THE AGRICULTURAL COMMUNITIES OR THE NATION COULD WITHSTAND THE SHOCK.

THE MANY PROBLEMS WHICH FACE AGRICULTURE TODAY ARE ALL CAUSED BY LOW COMMODITY PRICES. THE FARMER HAS BEEN FORCED TO SELL BELOW HIS COST OF PRODUCTION BY THE GOVERNMENT'S CHEAP FOOD POLICY, SOMETIMES TERMED AS "MARKET ORIENTED". IF ONE HAS ANY DOUBTS ABOUT WHETHER THIS TYPE OF POLICY WILL WORK, ALL HE NEEDS TO DO IS COMPARE THE FINANCIAL CONDITION OF OUR FARMERS TODAY TO THEIR CONDITION 15 YEARS AGO. THE MARKET ORIENTED POLICY HAS NOT WORKED AND WILL NOT WORK, ESPECIALLY IN THE DEPRESSED FARM ECONOMY THAT WE HAVE TODAY. WITH 95% OF THE NATION'S FARMERS HAVING FINANCIAL TROUBLES, THE ELIMINATION

OF THE TARGET PRICES AND THE LOWERING OF THE LOAN RATES COULD BE THE "KNOCK-OUT PUNCH" TO ONE OF THE MOST PRODUCTIVE GROUPS OF PEOPLE THIS GREAT NATION OF OURS HAS KNOWN AND PROBABLY EVER WILL KNOW. WE AGREE THAT GOVERNMENTAL EXPOSURE SHOULD BE REDUCED IN ORDER TO CONTROL THE DEFICIT, BUT NOT AT FURTHER EXPENSE TO THE AMERICAN FARMER. THIS COULD BEST BE ACCOMPLISHED BY RAISING THE LOAN RATES TO TARGET PRICE LEVELS. SHOULD THIS BE DONE, THE CONTROVERSIAL DEFICIENCY PAYMENTS WOULD BE ELIMINATED, ALLOWING ALL FARMERS, LARGE AND SMALL TO PARTICIPATE IN THE PROGRAMS. WE REALIZE THAT WITH THIS APPROACH WE WOULD NEED STRICT SUPPLY MANAGEMENT AND THE CONTINUED OPERATION OF THE COMMODITY CREDIT CORPORATION, IN ITS PRESENT FORM, WOULD BE AN ABSOLUTE NECESSITY.

THE DAIRY PROGRAM WHICH IS PRESENTLY IN PLACE IS WORKING QUITE WELL. THE DAIRY PRODUCTS WHICH THE GOVERNEMNT IS HAVING TO PURCHASE FROM FARMERS NOW STAND AT APPROXIMATELY 50% OF THE AMOUNT THAT IT WAS WHEN THE PROGRAM WAS PUT IN PLACE. ANOTHER SIX TO NINE MONTHS UNDER THIS PROGRAM AND WE COULD SEE OUR DAIRY SURPLUS COMPLETELY VANISH. THIS PROGRAM IS LARGELY FINANCED BY DAIRY FARMERS THROUGH THEIR 50 CENT CHECK-OFF. THIS LEAVES GOVERNMENT WITH A MINIMUM AMOUNT OF EXPOSURE. WE SEE LITTLE LOGIC IN ABOLISHING THIS DAIRY PROGRAM AS PROPOSED BY THE ADMINISTRATION.

MR. CHAIRMAN, I THANK YOU FOR THE PRIVILEGE OF APPEARING BEFORE YOU TODAY.

Senator SASSER. We will hear now from Page Box.

STATEMENT OF PAGE BOX, DIRECTOR, AMERICAN SOYBEAN ASSOCIATION

Mr. BOX. Thank you, Senator Sasser and Congressman Jones.

Just like everybody else here, I appreciate you all asking this time to come before this group and hear our views on these things.

I think that probably the only thing that we would all agree on here today is that we think everybody else should probably share our opinion because most of us think that our opinions are right. Sometimes it is, and sometimes it is not.

I guess in speaking to the Congress and the Senate of the United States of America, I think that I as well as other people in this room are proud to be an American because we have this opportunity. I do not mind telling you I would rather be digging a ditch or chopping cotton or throwing out garbage in a pile in the United States rather than being controlled by a Communist government or some other type of government that we see in other parts of the world.

I think when we look at the budgets that we are facing in agriculture, we have got to look at some other budgets that come about. A lot of times I wonder why agriculture gets examined by every other group in the country, every other consumer organization, every part of the State Department wants to have their input into agriculture. And when we start hearing about the budgetary processes that they go through, we do not seem to have these hearings. We do not seem to have this input.

I think when we look at the integrity of our country, we have got to have a strong defense. So we have got to have a good defense budget. But when we look at the integrity of our country from an economic standpoint, we have got to have a strong agriculture and a strong agricultural budget.

Our agriculture is as important to our economic well being as our defense budget is to our integrity and to our ability to continue as, to operate as we have operated in the past.

NATURE OF AGRICULTURE CREATES SPECIAL PROBLEMS

So we have got to have this. The nature of agriculture creates special problems that we do not see in other areas. The nature of the farmer creates special problems sometimes that we do not see in other areas. Sometimes we are our own worst enemy as we have talked about earlier today. Sometimes we fight each other over little things more than we agree over some of the bigger things. There is a lot of definitions that are thrown around in agriculture and things that we talk about when we start talking about what we want to do and what we want to preserve and what we want to keep.

The family farm is a term that is used a lot. What is a family farm? A commercial farm is a term that is used a lot. What is a commercial farm? Is agriculture a way of life? Is farming a way of life, or is farming a business? Can you say that you want to have a farm so that you can enjoy living that way, or are you going to be able to have a farm because you can operate it as a business and afford to have a farm?

Every year, somebody is going to go out of the farming business. Every year somebody new is going to come in. And it is that way in other businesses, too. Look at your service stations that you have on the corner. Some of them are open and doing a booming business. Some of them are closing up. We are not the only people that face problems in our business. But we do have some special needs.

LEADERSHIP NEEDED IN CONSERVATION

Two areas that I think that we need to continue to support very strongly in conservation is No. 1. You cannot continue to farm unless you practice conservation as you farm. We have all seen what has happened here in west Tennessee as we have gone to farming heavily on some of this sloping land. It is washing away. As we have gone more and more to depending on one crop—in the past we had cotton. We all depended on cotton. We farmed cotton very extensively. It created erosion. We have done the same thing in soybeans. And not only have we done it with more beans and trying to increase our yields per acre, but we have increased our acreage so much that we have created a conservation problem.

I think that if we are going to continue to farm, we have got to have conservation and we have got to have some leadership in this. Most of us will not practice the best conservation unless we are led in this direction. And this is a responsibility, I think, that we have to look towards the Government to.

All right. Then when we look at credit, who deserves to borrow the money. What type of credit program are you going to come up with? Are you going to use credit to promote inefficiency, or are you going to use credit to promote efficiency? That can get to be a real touchy subject because most of us think we are efficient. Most of us want to continue to operate our farms and our other businesses that we are involved in.

I think that we have got to have special programs to meet special problems. We have had efficiency payments. We have had emergency loans. We have had the disaster loans. We have moved toward a situation of us trying to insure ourselves through the Federal Crop Insurance Corporation. I think this is a move in the right direction. I think it is probably the only move that we can have because as it has been stated, we are too few to outvote the rest of the public.

But these programs deserve our attention, and they deserve our scrutiny, and they deserve our support there so that they can become successful. And I think that they will become successful if we continue to put them in the limelight and continue to examine them.

CONTINUE THE FIGHT FOR OVERSEAS MARKETS

Last and probably most important is marketing. We have got to sell what we produce. I do not care how good we are, how efficient we are on the farm. If we grow a big crop and we cannot sell it, we are just in as bad a shape as if we grow a little crop and we cannot sell it. We have got to sell and use what we grow. It has got to disappear. And right now, the biggest markets that we have are overseas. And we have got to continue to fight for those markets and develop those markets.

And we need help along those lines because the Government creates problems when we start trying to sell things overseas. And so we are going to have to have some Government help to solve those problems. We have got to quit fighting ourselves. We have—different branches of the Government have set up problems that come back to haunt us. For example, in AID and the International Monetary Fund, we have gone overseas and developed agriculture in other countries that we used to claim as our markets. Now they are producing, and they are trying to sell the same stuff back to us.

We built the elevators overseas. One example is the elevator that we built in Egypt. Built on—took over $90 million to build one elevator in Egypt. The American people paid for this elevator. The bureaucracy that was in charge of located it on the Red Sea. So now if they are going to buy American goods our ships have to go through the Suez Canal or around Africa to get to this elevator. We built it and now the Australians are shipping the wheat to it because it is located over there where it is easier for them to ship to. We cannot have that.

The same thing that applies to our examining of the defense budget where you all have found out the waste that has come through there with the price of those hammers and screwdrivers and things like that has got to be done in other areas of our agriculture budget and our old budgets to make sure that this does not happen.

Thirty years ago, we produced two-thirds of the world's cotton. And cotton was in bad shape then. Now we produce one bale out of six. And cotton is in bad shape now. We have had short-term problems. We have had short-term solutions. We have got long-term problems. We have got to have some long-term solutions. And the short-term solutions cannot be stretched out over the long term or they become part of the problem.

AGRICULTURE MUST BE PROMOTED

One of the gentlemen here today spoke about promoting agriculture and that the firms—the agribusiness firms ought to be out here running ads for agriculture. Well, they are doing more of that than I have ever seen in the past. But we have got to do that ourselves. We have got to promote ourselves. And we spend a lot of time sitting around talking and blaming things on other people when we should be accepting some of that blame ourselves because too often we sit back and do not do what we need to do.

And I am not preaching to you all, now. I guess I am talking to the rest of us. But we have got to do this. We have got to promote our own agriculture. Whether it is through check-off programs to support certain crops or whether it is through contributions to ag organizations and membership in ag organizations so that we can run some of these ads, so we can put some of this propaganda out to show the American public what we are doing for them. We have got to quit talking to ourselves and talk to the rest of the country.

Again, I want to thank you for your time, and appreciate you allowing me to speak here today.

WESTERN TENNESSEE LEADS NATION IN SOIL EROSION

Senator **Sasser**. Well, thank you very much. I would just like to make one quick comment because time is getting short on us. We have got another panel here.

Dr. Whatley mentioned the fact that we had a real problem with soil erosion, and Page Box talked about soil conservation. And I was looking at some figures just the other day. West Tennessee and West Tennessee counties have the dubious distinction of leading the Nation in the area of soil erosion to a point that over a number of years, as Congressman Jones knows, the Soil Conservation Service has received special funding for the State of Tennessee to deal with the problem. And you have only to get in an airplane and fly over the Mississippi River and see that river turning yellow and brown as it courses through Tennessee to see what kind of problem we have.

Of course we are shipping our soil down to the Mississippi Delta, and they like to get it. But we do not want to see it leaving here. So I was doubly distressed to see that these new budget recommendations as I recall, Congressman Jones, zero out and eliminate the Soil Conservation Service.

Am I right about that?

Mr. **Jones**. That is correct.

Senator **Sasser**. So that is something that impacts very adversely on us here in the State of Tennessee, and I think Page Box is right, farmers are going to have to have some leadership and some examples set in the area of conservation, and particularly soil conservation.

I remember when I was a boy growing up down here, Congressman—that is getting to be a long time ago now—but those gullies were way up over our head and you could drive a car in one of them and that would be the end of it. Never would be seen. Well, we have made some progress there, but we have still got a long way to go.

Terminating the Soil Conservation Service is just in my judgment unthinkable. Do you have anything to add, Congressman?

RUNOFF HAS BEEN REDUCED

Mr. **Jones**. Jim, that is a real fine statement. And I might add this: Thanks to your father who was State Conservationist in this State for a good many years who helped to start the programs that we have here in west Tennessee.

I might add that through some of the work that we have had recently in the last good many years with the help of the Tennessee Valley Authority and others, Dr. Whatley is very, very familiar with this program and many of you people here in the audience are, we have been able to reduce our runoff to some extent; whereas it was 40 tons per acre at one time annually, we have reduced it to about 20 tons now, I believe, Dr. Whatley, which is a pretty big improvement, but not near enough yet. We have a long way to go.

And I do not think we love Louisiana all that much yet to send all that land down there because we need it in west Tennessee.

I just want to say Jim that I thank all the panelists for the good statements they have made. I wish we could take more time and discuss them. I do not think we have the time as usually is the case with hearings of this sort. Pam Farmer made a very fine statement and one that has been on my mind for many, many years, how to keep young people on the farm. I had that problem when I was growing up, too, Pam. And many, many other youngsters had the same problem.

And I think Buddy Carlton's statement about cutting farm programs, especially what he said about conservation, is firsthand knowledge of the problem that we have. And Dr. Whatley mentioned the fact that we cannot—we cannot abandon research. And we cannot. The improvements that have been made in agriculture in this country today, whether it is through yield improvement or butterfat improvement in animals or milk improvement or beef improvement or whatever, have been the result of research. And we must continue our research without any doubt.

And, Page, I am always appreciative of the statements that you make, the contributions you make.

Mr. Box. Thank you.

Senator Sasser. Thank you very much.

Well, we will go on to our third and last panel. And I don't know whether we should call this the bad news panel or what, Congressman, because these are the folks who supply the farm credit.

Mr. Jones. Let us make that decision later.

Senator Sasser. We will hold and make that decision after we hear from them. This panel will consist of Mr. Raymond Schlader. Mr. Schlader is currently the president and chief executive officer of the Federal Land Bank of Louisville and the Federal Intermediate Credit Bank in Louisville.

He began his career as farm credit manager in 1951 as assistant manager for the Mason City, Iowa Production Credit Association. He was named field man for the Federal Land Bank Association of Mason City in 1958. And he managed the Federal Land Bank Association in Auburn, Nebraska, in 1961 through 1965. He currently serves as a chairman of the 4th District Farm Credit Banks.

We also have Mr. Johnny Crow, who is the State Director of the Farmers Home Administration. Mr. Crow was appointed State Director by Secretary Block in 1981. He is responsible for loan and grant activities involving more than 200 employees in 78 county offices and in 10 district offices.

Mr. Crow has served in the Tennessee State Senate. He has owned and operated a general insurance agency in Nashville and he has served as the president of the Bon Aqua Utility District for 8 years. He is a graduate of Austin Peay State University and has pursued graduate studies at George Peabody College in Nashville.

We also have Mr. Jack Robison, the commodity lender with the First Tennessee Bank of Memphis. Mr. Robison has worked in the field of commodity lending for 34 years. He graduated with a Bachelor of Science degree from the University of Tennessee. He has coauthored numerous articles including a chapter on commodity lending entitled "Bank Credit," published by Harper-Row in 1982.

Mr. Robison also co-authored the Banker's Handbook chapter on commodity lending which was published by the distinguished Dow Jones Publishing Company.

And last but certainly not least by any means is Murray Buntin. Mr. Buntin was formerly vice president and senior loan officer in charge of agricultural lending at the National Bank of Commerce in Jackson. He served in that capacity for 12 years. He is currently a fulltime farmer with a 500-acre farm where his major crops are cotton, soybeans, and corn and he produces some of the best country hams in the world.

Gentlemen, we are delighted to have you here. And we will begin with you, Mr. Schlader.

STATEMENT OF RAYMOND C. SCHLADER, PRESIDENT, FARM CREDIT BANKS OF LOUISVILLE

Mr. Schlader. Thank you, Senator Sasser, Congressman Jones, and friends.

As the 1985 deadline rapidly approaches for a new farm bill and as the debate over the fiscal year of 1986 Federal budget continues, American agriculture stands at a crossroads.

Currently, agricultural policy experts and the present administration officials are freely and openly exchanging ideas on what the new farm policy should contain. They are making budget proposals which cut at the very heart of the U.S. farm economy. The farm credit system is vitally concerned about the health of our American agricultural economy, as well as the proposals relative to the farming sectors that are being advanced by these groups, particularly this administration.

And as a representative of the 4th Farm Credit District, I would like to outline some of the views that we have seen in agriculture today in light of the 1985 farm bill and the Federal budget proposals.

NUMBER OF FARMS WILL DECLINE DUE TO ADVERSE CONDITIONS

Today farmers are plagued with high interest rates, heavy debt loads, low crop crises, and declining farm values, all of which have driven many operators out of business. Using current figures provided by the USDA, the Federal Reserve Bank of Chicago estimates that 18 percent of the Nation's farmers, whose debts amount to 40 percent or more of their assets, are particularly vulnerable to financial stress.

In a major study conducted by our system called Project 1995: A Look Into The Future, it is projected that the number of farms will decline by 1 percent a year in the next 10 years due to the adverse conditions which have been a fact of life in agriculture through most of the 1980's.

Faced with these and other grim statistics, many farmers have found that the year brings little to celebrate.

Relative to the Federal budgets eliminating support programs and loans to farmers could be the straw that broke the camel's back which will prompt an even greater number of farmers to call it quits.

During 1985, the Congress must carefully scrutinize all areas of the budget, particularly the massive increases in defense spending before it cuts in the programs that are so vital to the survival of our farmers.

One of the budget proposals drafted by the Office of Management and Budget is of critical concern to us. As many of you are aware of a user penalty that has been proposed on the Farm Credit System. OMB has recommended, as a result of President Reagan, which includes a proposed user fee on the farm credit system, and other so-called Government sponsored enterprises in his fiscal year 1986 budget.

The OMB proposal would impose a user fee of 5 basis points in fiscal year 1986, which would rise to 8.3 basis points in fiscal year 1987. The fee would be levied against the farm credit system's total borrowers during the fiscal year. If it had been imposed in 1984, such a fee would have caused borrowers of farm credit system an estimated $46.5 million.

USER FEE WOULD IMPOSE ADDITIONAL COST BURDEN

The OMB proposal means that the administration wants to impose an additional cost burden on agriculture at its weakest moment in 50 years. The Government gets new revenue from farmers. Farmers get nothing in return.

That user fee proposal first surfaced in the President's private sector survey on cost control and the Federal Government, or the Grace Commission report as it has been commonly known. The Grace Commission shares the belief with the OMB that the agency staffs provides sponsored enterprises with an unfair advantage in the marketplace. Charging an escalated fee for its use is seen as an effective way of eliminating or ending the agency status.

Farm credit institutions, the Federal Land Bank, the production credit associations and the Bank for Cooperatives are private, borrower-owned cooperatives that provide nearly one-third of the credit for agriculture. In 1984, our American farmers and ranchers and their cooperatives had outstanding loans of about $80 billion from our system's institutions.

OMB's case for imposing a user fee for agency status is inconsistent, we think, with the mandate of Congress. Congress has mandated the Farm Credit System to provide sound, adequate, and constructive credit to our farmers and ranchers at the lowest reasonable cost. To impose a users fee for agency status would have three repercussions, we believe.

First, it penalizes the system and its borrowers for using the means authorized by Congress to fulfill the congressional mandate.

And second, the Farm Credit System needs agency status. Congress established our system to specialize as lending institutions operating under very narrow restrictions regarding who they may finance and which financial activities we may engage in. Unlike our competitors in the commercial banking industries, system institutions cannot raise funds by taking deposits or engaging in a wide variety of other financial activities.

And third, the farmer will pay the fee. Since the Farm Credit System is cooperative-organized, it must pass along the past imposed user fee to its members, our farmers, and our ranchers, as well as to our agricultural cooperative. Given the extreme financial stress already being felt by our farmers today, additional costs would only make the current economic situation even more intolerable.

FARM CREDIT SYSTEM SENSITIVE TO PLIGHT OF FARMERS

The Farm Credit System is very sensitive to the plight of farmers. And as a result, our system is working very closely with borrowers in an attempt to try to help them through these adverse times. Lending institutions like our system are trying to recognize the troubles facing farmers in the early stages and are thus providing good financial counseling to help farmers avert a major financial catastrophe. It includes an examination of why the debt cannot be serviced, both temporarily or permanently, and it is used to develop a course of action to assist the distressed borrowers.

Obviously lending agents like our system are trying to do more than simply provide credit. We must be advisors, exercising every option available to help farmers survive. These stressful times also necessitate that lenders like our system work very closely with other credit bodies that act as agencies in the Federal Government, credit bodies like the Farmers Home Administration.

We appreciate the need for lending programs of last resort. And as a result, our system currently has a task force which is determining what our roles should be in working with FHA in serving distressed farmers.

Historically, the Government programs have not been long-term solutions to farmers' woes, but only quick-fix solutions or Band-Aid approaches. Also, too many times it appears that the real benefits do not appear to those for whom they are designed. While most people agree that the U.S. Treasury cannot financially underwrite the agricultural industry, the Government can and must however help the industry through a transition period by price stabilization programs toward more of a free market environment.

Farmers could benefit from such an environment which would allow prices to rise sharply whenever production slips below demand. In such a system a business-oriented producer would allocate resources effectively and American agriculture could be more competitive in a world market.

FARMERS NEED HELP THROUGH CRITICAL TIME

Ideally the role of Government in agriculture should be one of providing an overall economic climate in which our farmers who have the ability to farm profitably can do so. While the creation of a free market environment should be the ultimate goal of agriculture, we must look at the immediate future.

During this transition between reliance on Government programs and a free market environment, farmers need Federal programs to help them through this critical time. I think stability is important in seeing farm policies that are attuned to the current needs of agriculture. Economic stability is a major source of financial trouble for our farmers. Agricultural policy can prevent fluctuations in market conditions, at home and abroad, but it can also soften the destructive effects as well.

While I have spent a little time talking about American farmers and the problems they face, I am sure that the committee is interested in receiving an update on the ag conditions in Tennessee.

As of September 30, the Land Bank reported about 16,000 loans outstanding in Tennessee for a total volume of about $740 million. The number of loans outstanding in Tennessee is down about 4.7 percent from our 1983 figures. The number of Land Bank borrowers in bankruptcy in this State was down significantly in 1984, from 68 in 1983 to 45 in 1984. This year the number of delinquencies was up slightly from 274 to 319 out of the 16,000.

The number of foreclosures was up this year from 25 to 43. An increase in the number foreclosures in 1984 was not experienced throughout our fourth farm credit district. And it is not unique to Land Bank borrowers in this State.

Loan volume in Tennessee for our PCA's is down about 14 percent from the figures in 1983, from a volume of $433 million to $372 million.

On a positive note, the numbers of borrowers in bankruptcies reported by our Tennessee PCA's has decreased 41 percent over last year. And the foreclosures show 61-percent decline over the previous year.

OVERALL IMPROVEMENT IN CREDIT CONDITIONS

The overall improvement in Tennessee credit conditions, we think is the result of belt tightening on the part of farmers who are denying themselves a lot of things during these very difficult times. It also reflects the fact that our Land Bank and PCA's are conscious of and sensitive to the financial plight of farmers in this State.

During the past year, we were proud of the fact that association staffs in Tennessee worked very closely with borrowers who had heavy debt loads and who have had difficulty servicing those debts and obtaining funds to cover their operating expenses. In such cases our staffs utilized various forms of loan servicing such as reamortization, refinancing, or partial releases.

We are working with our farmers as best we can in such a way that will not jeopardize the financial integrity of the system. Our system's philosophy is and always will be to service all loans fairly and equitably. Loan servicing, of course, cannot impose an undue risk to the banks and associations and to the farmers who own our system.

Again, the financial integrity of the system must be preserved. But the banks and associations must make every effort, using their credit expertise and innovative programs, to see that farmers can carry through in these troubled times.

Let us clarify in closing a possible misconception about the farm figures in this State and the rest of our district, which includes Indiana, Kentucky, and Ohio. As a representative of the Nation's largest agricultural lender, I am pleased to report our statistics show that only a relatively small percentage, approximately 2 percent of the borrowers had the kind of serious financial problems that would force a major restructuring of their business or discontinuance of their Land Bank or PCA service at this point. Even in such cases, our banks as well as most agricultural lenders are trying to help the overleveraged farmer work out of his financial problems.

In the long run, I believe that our farmers, as well as our system of government, are innovative enough to overcome the major economic obstacles facing us today. While we agree that there is a limit to what the Federal Government can do and should do to help our troubled ag economy, I oppose the massive budget cuts which would adversely affect our farming community.

Certainly our farmers are faced with enough problems, given high interest rates, heavy debt levels, low crop prices, and a decline in farm values. Any additional abrupt cuts in farm programs and significant changes in agricultural policy will have serious repercussions.

Likewise, any implementation of a user fee on the outstanding farm credit debit would also impact 3 percent of our American farmers and ranchers and their cooperatives, who have relied very heavily on our system for over 68 years for sound and dependable credit.

I thank you.

Senator SASSER. Thank you very much, Mr. Schlader.

Mr. Crow?

STATEMENT OF JOHNNY CROW, STATE DIRECTOR, FARMERS HOME ADMINISTRATION

Mr. CROW. Thank you, Senator.

Let me say it is a pleasure to be here and to talk about some of the problems of agriculture. I appreciate you and Congressman Jones very much for establishing this forum and this hearing.

While Farmers Home is a credit source of last resort, I think it is important that everyone know that we have about 12 percent of ag credit on a national basis. In Tennessee, I suspect it is a little bit more than that. But I will refrain from commenting upon the proposed cuts and the budget for 1986. However, I would like to give you folks a status report of what Farmers Home is doing in Tennessee today and how we are, with our programs, attempting to help our farmers get over some of the tough economic conditions that they find themselves in.

PRESIDENT ISSUES NEW DIRECTIVES

In Tennessee, we have approximately $1.5 billion loaned to the farmers, some 9,400 farmers across the State. Now, on September 18, the President issued some new directives to Farmers Home, and we feel that the new farm credit initiative that the President announced on September 18 will be a great help to our farmers who find themselves in stressful conditions. In a sense, it would allow a set aside of 28 percent of the debt for a period of 5 years for those who qualify.

In another part of the program that is especially interesting to me is that in areas where banks have a substantial amount of ag credit and they have in their loan portfolio a classification of loans that are in trouble, we can work with that bank. And if they will write down at least 10 percent of the face amount of that loan, then Farmers Home can give up to a 90-percent guarantee on the balance of that loan.

We have also been working with the banking community in establishing what we call an Approved Lender Program. This indeed would help Farmers Home a great deal at the local level in helping implement our loan program. We at Farmers Home decided during the course of fiscal 1984 that it was important for us to get more local participation if we possibly could from the banking community. And we will allow them to substitute some of their forms and process loans up to a closing point before the borrower would necessarily need to talk with a Farmers Home Administration officer. And hopefully this will stimulate the delivery of our program at the local level.

YOUNG FARMERS NEED HELP

Much has been said here today about the young farmer. Now, the young farmer obviously is something that we feel very strongly about. We think there is a need, a great need to help the young farmer get started. Now, we have a limited resource rate. Our limited resource rate is 7¼ percent for a young farmer to get started. We think that is, it is much less than a market rate for young farmers that we will have been able to entice more to come into farming.

We have rescheduled—Senator Sasser and Congressman Jones—we have rescheduled and reamortized a great number of loans, while we have a delinquency of about 36 percent across the State. We feel like the new programs that we are offering are going to lower that delinquency rate by at least 50 percent and get more of our producers back on a sound financial basis.

In fact, we are right proud of our delinquency rate. We have been able to keep over 9 out of 10 farmers in business. That is a right good rate. Our foreclosure rate is two-tenths of 1 percent. So we have over 9,400 borrowers. And we think those numbers are pretty good.

We also have had for the past 3 years an increase in our operating budgets. We have had in increase in our farm ownership budgets. And we hope that during the balance of this lending season for fiscal year 1985 that we will have sufficient funds available to meet the needs of our borrowers across the State.

We have just over $75 million allocated for this year's program. Last year with our emergency program and all, we in Tennessee used $131 million to aid farmers across the State.

I think, Senator Sasser and Congressman Jones, that the folks who represent us in Congress from all across the country, the things that you may want to consider, we think, and the ways that we feel that perhaps you could help agriculture is it you would explore every possibility of expanding markets so that the bottom line of the farmers' income can show an increase. And we support any efforts here in Tennessee.

While I know a lot of individuals are getting into exports here in Tennessee, we feel like that we would like to see the Congress and the administration do absolutely everything it can to explore foreign markets in order that we do have a place to sell our goods.

Thank you for letting us come and be a part of this hearing.

Thank you.

Senator SASSER. Thank you, Mr. Crow.

Mr. Robison.

STATEMENT OF JACK ROBISON, COMMODITY LENDER, FIRST TENNESSEE BANK, MEMPHIS, TN

Mr. ROBISON. I, too, appreciate the opportunity to appear today. The year 1985 will be a big year for farm policy as a new farm law must be enacted. In my opinion, the first and foremost issue should be debt relief to struggling farmers. Many who have been hanging on by their fingernails will find it impossible to continue. Also, there will be many more who will need help for refinancing the 1985 spring planting. Regardless of the form the 1985 farm bill takes, it will probably not have much bearing on the farmers' income for 1986.

I am going to quote a fellow here that I do not necessarily agree with, but I think he does make some interesting observations. According to Don Paulburg, former USDA official, professor at Purdue University, U.S. farm programs for the past half century have been a failure. Despite the deepest acreage cut and the largest outpouring of Government money in history in the 1983 PIK program, farmers are still experiencing the most financial stress since the Great Depression.

In the area of cost, he points to the 1983 farm program outlays of $21.7 billion which exceeded the net income of all agriculture. He points out that the cost has—and this is what I wanted to bring out—the cost has in his opinion exceeded the tolerance level of the American public. And he says the huge U.S. budget deficit insures that the new farm bill will receive close scrutiny from a cost standpoint.

CUT THE AGRICULTURAL BUDGET WITH CAUTION

I agree that Congress will take a very close look from a cost standpoint at the new farm bill, maybe to the point that it will be dangerous to agriculture, the Nation's No. 1 industry with assets exceeding $1 trillion. Even though the political benefits of farm programs are faded, there are 23 million Americans involved in growing, processing, and marketing hundreds of U.S. agricultural commodities.

Something must be done. But we should be very cautious in cutting the agricultural budget.

It is true that many farmers are in trouble today. Some due to their own poor management, while others were misled by the Government. Still others fell victim to low prices, drought, and so forth.

In searching for a reason or reasons for their dilemma, we must go back to the 1970's when farmers went on a binge of equipment and land buying. They piled up a mount of debt equal to nearly one-quarter of the amount of all developing nations' debt. Since then, and even for a number of years before, when a farmer had a bad year, he simply went down to his friendly banker and borrowed more money on his land. To supplement his cash flow, he substituted debt for profit.

This worked fine as long as land prices kept escalating. Once the price of land leveled off, he began to feel the pinch. And then came rapidly rising interest rates which forced him to devote more and more of his income to servicing long-term debt. There is no doubt in the future all farms will be more capital intensive and less labor intensive. Average farming operations will require fewer manhours but more dollars. Growing debt burdens may force changes in ownership and the financing of farming operations. But there seems little doubt that the average farm will carry more debt as average capital needs grow faster than incomes.

The result will be that the farm debt will require permanency that resembles a role of leverage policies in other business sectors. Much concern is expressed about managed leverage and safe debt loans in light of payment risks and higher rates of inflation.

Inflation increased the liquidity problems for the farmers because a higher portion of their returns encourage capital gain rather than current income and increasingly shifts repayment burdens to future income. The real concern must ultimately be whether future cash income can support the expended debt. Borrowers and lenders alike must face the reality that debt must be serviced from income, not from assets or land appreciation.

NO EASY QUICK-FIXES FOR BORROWERS IN TROUBLE

In my opinion, there are no easy quick-fixes for borrowers in trouble. The jury is out and may be for some time in regards to the four-point credit initiative plan recently announced by the Reagan administration aimed at helping growers who have demonstrated good production fields but cannot repay existing loans because of cash flow problems. The plan calls for a private lender, such as the bank that I work for, to write off at least 10 percent of a farmer's debt in exchange for a farmer's home guarantee of the repayment of the remainder. In some cases, reduction may vary. But lenders basically are being asked to write off enough of what the farmer owes and take any other action necessary to assure that the repayment obligation can be met from the customer's anticipated cash flow.

Now, I do not think you are going to like to hear what I have to say next. But the timing for commercial banks is very bad to come to the commercial sector at this time. Many of the smaller, as well as some of the larger banks have equity problems. Writeoffs intensify this problem. And most commercial banks are going to be very reluctant to go this route, to pick up an FHA guarantee, especially when the interest rate cannot exceed debt given to the financial institutions most creditworthy customer.

No; I wish I could sit here, and I am speaking more of Jack Robison, probably, than First Tennessee Bank. But I wish I could get enthused and say that the banks were going to jump into it. But I think that the jury is out and it will be a time. And No. 1, you will ask him to write off 10 percent. A classified loan has not got the bottom line yet. The day that they write it off is the day, that is the day when you start saying write it off at least 10 percent, maybe up to 30 percent, and at the same time, give the lowest rate that you give to anybody.

Well, in closing, I would like to point out that immediate debt assistance to the farmer should get priority attention on the legislative agenda of 1985.

Senator SASSER. Mr. Robison, some of us never thought that program was going to work anyway. I never had much confidence the bank was going to write off 10 percent of the loan and give the lowest possible rate of interest.

Mr. Buntin.

STATEMENT OF MURRAY BUNTIN, FARMER AND FORMER VICE PRESIDENT AND SENIOR LOAN OFFICER, NATIONAL BANK OF COMMERCE, JACKSON, TN

Mr. BUNTIN. Thank you, Senator Sasser and Congressman Jones, and everybody here. I feel honored to be on the panel with the distinguished people here. And most of my experience has been on a local level in a very restricted area.

When I was in agricultural lending at this bank, the last year that we had a generally profitable year was 1973. Most farmers that I had experience with paid out their loans. Some picked up loans 4 and 5 years old and paid them out, had money left. Then we were sold or brainwashed into going fence row to fence row. We bought new equipment, took on more land, we took on higher debts. And we have been in a spiral downward ever since.

AG LENDING DOWN TO LOW LEVEL

Each year that I was with the bank, the number of farmers who failed or failed to qualify for a good bank loan amounted to about 16 percent. The farmers that we were doing business with did not qualify any more according to the bank standard—approved bank standards to where we had to move them out and eliminate them. Some quit. Some were moved to Farmers Home and other places.

In 1982 after the 1980 draft, drought and the embargo, most of the ag lending was down to a very low level in the percentage of the loans to the bank. These proposals that I see made now are shifting operating loans to the banks. I would strengthen what you said, Mr. Robison, that the banks will not accept them. And they cannot because of being classified by bank examiners and having to be either taken out of the bank or charged off as an asset of the bank.

One of the concerns that concern me, even if this does work, when you change an operating loan for Farmers Home Administration from like 20 percent to the bank rate of 14.5 plus another 5 percent origination fee, I believe I would rather finance with a BankAmericard or VISA or something because this on top of this adding cost that we cannot bear.

On the other hand, with the 5-percent origination fee for export credits, I feel like that that will come, be passed back to the farmer in the form of a reduced price. It is just like someone said to that, that if this fee is tacked on, we have to add it in and pass it on to the farmer.

FARMERS ARE GETTING HIT ON BOTH SIDES

And so all of this tends to make me think this: If the farmer is going to be an endangered species and he is going to be in the situation where there is not going to be many of them around any more, and it frightens me. I see evidence of it every day. In fact, yesterday, I was informed that a young man in our county who was selected Young Farmer of the Year 1 or 2 years ago is going out of business. There will be nobody to pick up his place. Yet his career and his business made him an outstanding person, very qualified, but he cannot continue in the farming business.

Another thing that concerns me is the number of farmers with Farmers Home Administration, approximately 10,000 farm borrowers in Tennessee. I heard figures that possibly as much as 50 percent of them would not qualify for this bank operating loan if they wanted it at 19½ percent. And you take out 5,000 farmers out of—mostly out of West Tennessee, it would be a calamity. The equipment placed on the market for sale, the farms placed on the market for sale would depress the entire remainder. Any net worth that I might have in farm real estate may go down 50 percent in value on a temporary basis because of such an oversupply of land on the market, of equipment on the market.

I think we are going to get hit on not just one side but on several sides. And the end result will be total chaos. And in the future, we could possibly be similar to Africa and asking for people to come and help us produce food.

I do not have any answers to it. It is a deep concern of mine. And I hope that you will work hard for a fair and equitable farm bill.

One other thing that I would like to say. I think that the propaganda out, whether deliberate or otherwise, saying that we should get the Government off the back of the farmer—I have heard this more than once and even on television in the news—it has been my experience, and I have never seen or heard of anybody with the Soil Conservation Extension, ASC, or any other Government agency that does not have the deepest concern and consideration. They work as partners with the farmer for the purpose of trying to help him establish higher yields, a better quality of life, and to keep him better informed on new products and new research that is being done, this type of thing. And to get them off my back, I want them to hold my hand through the 1980's. I think they have done this in the past. And to eliminate them would be a total disaster.

Senator SASSER. Thank you very much, Mr. Buntin.

I have just got one or two questions here. One is for Mr. Robison.

FARM CREDIT SITUATION IS VERY BAD

We know the farm credit situation is bad for farmers. And I have been reading that the problems that farmers are having, their economic problems are now becoming bank problems, those banks who lend to them. And we hear reports that farm lenders are starting to really feel the sting of the farm credit crisis.

You are a banker with a long and distinguished background in farm lending. Just how bad is the farm credit situation in the banking community?

Mr. **Robison**. I think it is very bad. If you got the drift of my testimony today, I think you have noticed it, that I think first you are going to have to do something about debt assistance before we get into the long term. You can talk about exports, you can talk about whatever you want to that is going to help. But I think there are farmers out there that are going to have to have help before they ever put it in the ground. And you cannot export it before you plant it.

I think there is a tremendous amount of misery out there. And as evidenced by what the banking industry has gone through, so I pointed out, the timing is so bad because the banking industry, I would like to say, is very, very healthy. I think it is healthy, I think, the bank I work for. But to say we have not had any problems, that is not the case.

And what has happened is that in order to straighten out our house, then, we have become very critical of all loans. And ag loans get caught up at the same time the loan to the local automobile dealer does. So I think that we have, I think we have an awful lot of problems in this ag sector.

Senator **Sasser**. Mr. Crow, as you know, your agency, the Farmers Home Administration has been targeted for a cut of over $3 billion in Farmers Home Administration programs. Now, as a director of the Farmers Home Administration here in Tennessee, could you give us some idea about how your office or your operations would be affected by budget cuts of this magnitude?

Mr. **Crow**. Senator, I have not seen what specific cuts are being proposed. So at this time, I would just not be in a position to comment on that.

Senator **Sasser**. One of the things, Mr. Crow, that you did allude to a moment ago and which I think we are all in substantial agreement with you on is the question of farm ownership for young people. And I get around the State to some of the older farmers and they are concerned about it. They say, "After we get off the land, we do not see any young people coming. Those that were coming are bankrupt and they are gone."

ELIMINATION OF FARM OWNERSHIP LOANS WOULD HURT YOUNG FARMERS

One of the recommended cuts in the Farmers Home Administration budget, and I want to emphasize it is recommended, it is not official yet, but one is to eliminate $2.5 billion from farm ownership loans. Now, what effect is that going to have on young people trying to get in the farming business?

Mr. **Crow**. Well, I am not sure what the total effect it would be on, Senator Sasser. I would again say that working with the budget that we have proposed, that 20 percent of our total budget is directed toward the limited resource borrower. And that includes the young farmer as well. And, well, personally I had hoped that we would maintain some way to help our limited resource farmers and our young farmers.

Senator **Sasser**. Sure; I know you personally wish to do that. But I think that we can both agree that we are going to have a cut of $2.5 billion that would become a matter of fact in our farm ownership loans. And that is going to go a long way toward tying our hands in trying to help new farm owners.

I am worried about what is going to happen here to the Farmers Home Administration as a lender of last resort and what is going to happen to our farmers. If cuts of this magnitude go through, particularly given what we have heard here today about the desperate situation farm banks are in, and Mr. Robison says the banks are not going to write off that 10 percent, and that may look pretty attractive to you.

Mr. ROBISON. I might have some——

Senator SASSER. You may want something rather than nothing.

Mr. JONES. I am going to ask Johnny Crow first, if you do not mind, because I do not think we really have the time.

Johnny, here in Tennessee—and the reason I am going to talk about this is you and Ray Schlader come before my subcommittee and I am very concerned about the things we have talked about here today—you have got $1.5 billion in loans outstanding to Tennessee farmers; right?

Mr. CROW. Yes, sir; approximately.

Mr. JONES. Is the majority of that loaned in operating, is that revolving fund money or does that include your limited resource money as well?

Mr. CROW. It is revolving fund money, most of it, Congressman Jones.

Mr. JONES. That is what I thought. OK.

And we have got a 36-percent delinquency rate across the State of Tennessee, if I heard you right; is that correct?

Mr. CROW. That is about right.

Mr. JONES. And you said you thought you were going to be able to reduce that by about 50 percent?

Mr. CROW. Yes, sir.

Mr. JONES. In refinance? Is that what you mean?

RESCHEDULE AND REAMORTIZE LOANS

Mr. CROW. What we will do, Congressman Jones, is reschedule and reamortize a number of these loans. I feel fairly comfortable—while we are just getting that program on track at the moment, I feel comfortable that we will be able to help at least 50 percent of those borrowers with our reamortization and rescheduling servicing tools that we have to offer, and that some percentage beyond that will also qualify for the 5-year set aside as well.

Mr. JONES. If the banks will take them; right?

Mr. CROW. No, sir; the banks have nothing to do with that particular set aside. It has nothing to do with the bank.

Mr. JONES. You will set aside?

Mr. CROW. Yes, sir; Farmers Home will just defer for a total of 5 years the set aside.

Mr. JONES. OK.

Now, does that mean for those—well, we will say 50 percent, whether or not it is 50 or whatever it might be, will you be able to refinance those people to obtain operating loans for 1985, then?

Mr. CROW. Yes, sir; we will. We feel like we will be able to reach a great number of operating loans and farm ownership as well.

Mr. **JONES**. Well, are you saying that as far as Farmers Home is concerned, you are going to be able to take care of the majority of your applications for operating loans in 1985?

Mr. **CROW**. Yes, sir; we certainly think we will.

Mr. **JONES**. That is great news to me because this has been a big question that I have had. And I have had nobody I know to go—to ask this question.

Mr. **CROW**. We did about $74 million in business last year with the farmers. And we were able to help all of those that qualified. And we had an increase in budget. And hopefully we will be in good shape.

FORECLOSURE RATE

Mr. **JONES**. And your foreclosure rate is excellent.

Mr. **CROW**. Yes, sir.

Mr. **JONES**. Heck of a foreclosure rate?

Mr. **CROW**. We are right proud of it. We have been able to keep a lot of farmers in business.

Mr. **JONES**. You said you had $75 million allocated for 1985 already?

Mr. **CROW**. Yes, sir.

Mr. **JONES**. Is that for operating loans altogether or is that——

Mr. **CROW**. That is operating and farm ownership combination.

Mr. **JONES**. But it does not include the limited resource money?

Mr. **CROW**. Well, the administration likes for us and directs us to use at least 50 percent of that total allocation for limited resource.

Mr. **JONES**. Is that mandatory on your part?

Mr. **CROW**. Well, we try to follow it, yes, sir, and the limited resource rate being at 7¼-percent rate versus the 10¼-percent for those across the board.

Mr. **JONES**. But you had $131 million last year?

Mr. **CROW**. Yes, we used about $131 million last year, Congressman. But if you will remember, the year before last, we had a tremendous drought. And all of the counties in Tennessee were declared a disaster area. And so a good bit of those funds were used in our emergency program.

Mr. **JONES**. So on an average, the $75 million will do the job for you, then?

Mr. **CROW**. Yes; sir, we think so.

USER FEE

Mr. **JONES**. That is very good news to me. I am glad to hear that, Johnny. That is the best news I have had from Farmers Home since 1975. Surely that is a compliment.

Back on the user fee, Mr. Schlader. I am really concerned about the user fee. And I think it would be totally unfair, as I have always felt, for the farm credit system to be saddled with this obligation. And in case you are, the farmer pays for it.

Mr. **SCHLADER**. That is correct.

OUTSTANDING LOANS

Mr. **JONES**. No doubt about that.

Now, if I understood you correctly, $80 billion is the outstanding amount now owed by Tennessee farmers?

Mr. **Schlader**. No. That is the national figures, Congressman. That includes——

Mr. **Jones**. $16 million in Tennessee.

Mr. **Schlader**. It is about $738 million Land Bank in Tennessee and almost $400 million PCA's. So about a billion, total of the two, and that excludes the payment for cooperative borrowing in Tennessee.

Mr. **Jones**. Now, comparing that to—well, go on with that again. You said you were down—I have not gotten this right—$16 million loans down from 1983 figures $274 million to $300 million—from 200—from 300 to 274?

Mr. **Schlader**. That was in foreclosures, I believe, Mr. Congressman. The PCA loans outstanding were down about 14 percent in the year and the Land Bank about 4.7-percent decrease.

Mr. **Jones**. Now, is that a 41-percent decrease from 1983?

Mr. **Schlader**. That is a 41-percent decrease in the number of foreclosures.

Mr. **Jones**. Now, that is Tennessee?

Mr. **Schlader**. That is Tennessee, which we think is an excellent trend.

Mr. **Jones**. OK.

Well, that is what I want to get for the record to be sure that we had that right. That is some improvement.

Thank you very much, gentlemen. I was just glad to get that.

I would like to talk with Jack Robison and Murray Buntin, but I will do that at a later date.

Senator **Sasser**. Thank you very much.

Congressmen, gentlemen, thank you very much. We appreciate you appearing here today.

I have been asked to announce that the coffee and donuts were the compliments of Monsanto and BASF Chemical Co's. And we appreciate that.

Congressman, a number of folks have asked to make a statement or ask a question. And of course we are operating under some time pressures here, but we will go as long as we can.

The first one is John Bradley, the superintendent of the Milan Experimental Station. John, do you want to make a statement here?

STATEMENT OF JOHN BRADLEY, SUPERINTENDENT, MILAN EXPERIMENTAL STATION

Mr. **Bradley**. Thank you, Senator Sasser and Congressman Jones.

I will try to make it real brief, although I appreciate everyone's patience in this endurance. I earlier was kind of like Mr. John Shoaf wanted to say something, but I really do appreciate your patience in letting the audience have a say.

Thank you for the opportunity to express my views to this committee on the agricultural economic situation in west Tennessee. This is the type of opportunity that farmers really appreciate since they do not have the lobbying power of such companies as Frito-

Lay who complains about the price of soybean oil; Coca-Cola, who wants sugar and corn prices to stay low; and Quaker Oats, who wants cheap ingredients for their cereal.

SOIL EROSION

First let me address the soil erosion problem in west Tennessee. The soil erosion has been cut by more than 10 tons of soil loss per year during the past 10 years. This has been accomplished through a unique awareness by farmers and landowners through a cooperative technical assistance of agencies such as Soil Conservation Service, the Extension Service, TVA, with some financial help through the ASCS offices.

This technical assistance has been based on research conducted by the University of Tennessee Experiment Stations, especially the Milan Experiment Station. The no-till method of farming was perfected right here on this station. This is one agricultural practice that has saved more soil than all other conservation practices combined.

In 1984, this past year, 591,000 acres in Tennessee were planted no till, with an additional 363,000 in a conservation-tended system. This represents one-third of the total acreage planted crops in Tennessee. Ten years ago this was less than 25,000 acres.

SUPPORT FOR AGRICULTURAL RESEARCH NEEDED

We need continued support from the Federal budget for agricultural research. We have come a long way in short periods of time to solve our conservation problems. Success is within our reach. Extreme budget cuts would take control of soil erosion from the farmers' grasp. In my day to day work, I talk to many farmers such as Dale Woods who testified earlier. If you think about what he said, he said that on his average production, he can make a profit of maybe $19,000 a year—I would daresay that Dale Woods, who testified earlier, has an investment, cash investment out there of over $300,000. This is only 6 percent, maybe, that he can profit from.

Times are rough for the little over 2 percent of the population that feeds the rest of us. I have looked at budget plans. And the same story even under high management, such as Dale Woods, are rough to talk about. There is little room for profit.

In Tennessee, interest rates account for about 15 percent of the average farmer production cost compared to about 7.5 percent 10 years ago. But this runs up on some farms for 50 percent or more. There is a substantial concentration of indebtedness with 21 percent of the farmers having 75 percent of the total debt in Tennessee. Commercial banks still are the primary farm lenders with 24 percent of the farm debt, followed by PCA with 22 percent, Federal Land Bank with 19 percent, and the Farmers Home Administration in Tennessee with 17 percent. It would be a grave injustice to pull the rug out from under farmers when they are in a period of survival, not growth.

As I see it, Farmers Home Administration loans should continue to be available to Tennessee farmers organizations, as Congressman Jones alluded to, cry out suddenly take away, how many members would these organizations have that are really farmers.

CUTTING FARM PROGRAMS WOULD BE DISASTROUS

According to a recent study, the farm population—and this was alluded to by the previous speakers. According to a recent study, if the farm population continues to decrease at the present rate, in 10 years, there will only be 11 farmers in Gibson County, 3 in Carroll, and 4 in Weakley.

And, Senator Sasser, you have said:

"Agriculture is the backbone of Tennessee economy."

I believe agriculture can put this country back to work with people paying taxes rather than receiving handouts. Agriculture creates more jobs than any other industry. A healthy agricultural economy can do more for the national debt than cutting programs for farmers. Farmers do not really want a subsidy. They want a fair price for the products, hopefully a profit. To cut farm programs drastically during the next 4 years would be disastrous to farmers and consumers.

Senator Sasser, Congressman Jones, we do appreciate the support you have given us in the past, the Tennessee farmers. And we know that you will listen to what has been said today and work for prosperous agriculture in the future.

Senator **Sasser**. Well, thank you very much, John Bradley. And I want to express——

[Applause.]

Senator **Sasser** [continuing]. I want to express our appreciation, mine and Congressman Jones' and all of the participants here for your letting me use this facility.

Thank you very much.

Our next speaker is Marvin Edwards, the State president of the National Farmers Organization from Carroll County.

Marvin.

STATEMENT OF MARVIN EDWARDS, STATE PRESIDENT, NATIONAL FARMERS ORGANIZATION, CARROLL COUNTY, TN

Mr. **Edwards**. Senator Sasser and Congressman Jones, I would just like to say a few words. I do not know whether you would call it rebuttal maybe to what has been said, but at least a little different viewpoint.

FARMERS WANT FAIR PRICE FOR PRODUCTS

First of all, I gamble for a living. I am a farmer. But there is not anything that I do that a price would not solve. And I think in respect to the people here that lend money and other things, if a farmer had a fair price, he could get the money at the local bank or wherever because the bank would be willing to lend it to him if he seen the potential to get his money back plus the interest.

Our conservation program should be based on cropland being took out of production. And only the Federal Government is big enough to do it because as long as farmers are in a bind, they are going to plant every acre, try their very hardest to produce every commodity they can in order to pay their obligation and meet their interest payments. And the way to solve this and conserve some land is guarantee a loan or a target price at a level that is profitable to the farmer to stay in and take out some of this marginal land and set it aside for future generations like happened in the 1930's when cotton was depleted in west Tennessee.

I know it is probably an impossible thing to expect from Washington, but somewhere down the line it is going to be necessary that it is done because farmers are going to produce, as some of the people here have testified today, they are automatically oriented to produce.

Quoting Paul Harvey, he said:

FARMERS GOING BROKE

> Farmers were the only people that went broke each year, but somehow before planting time they managed to borrow enough money to get seed and fertilizer and enough optimism that everything is going to be all right.

So a lot of them are losing that optimism because they know it is not going to be all right because you do not know what you are going to receive. There has been a lot of emphasis put on export margins, but if you will check back, the people that put this emphasis in agribusiness and people that handle their commodities because they make the same profit whether it is $2 a bushel or $10.

For an example of what I am saying, if I had 30,000 bushels of corn out here in a bin and I need $60,000 to put in my crop and it is $4 a bushel, I would want to sell half of it. But if it is $2, I got to sell it all. That is the way they get my commodities.

So there is a lot to this thing that leaves you people in a hard way to go. But when agriculture prospers, so does everyone else. And it is time—the Government in Washington is going to have to do something even though the people in Washington are running around saying, "Get rid of it." Several of these people have commented on a free market. Free to what? Finish starving to death? We produce less now at a cheaper price than anywhere else in the world in the industrialized countries. But, yet, the farmers are all going broke and everyone else is doing well off of our commodities.

The people who handle our commodities are not going broke because they make the same margin either direction. So the only solution: Washington is the only one big enough to do it because as individuals, we will not. But when a man is drowning, you pitch him a straw, he will grab at it. And farmers are drowning.

I thank you.

Senator SASSER. Thank you very much, Marvin.

We have got time to take one more. We have got two or three other folks that want to make a statement. And Congressman Jones and I are running out of time. We have got to go over to McKenzie where they are closing a shoe factory over there.

So it just seems like we go from one problem to another, Congressman. But Billy Walker, one of our bankers, wants to say something about the Farmers Home Administration loans.

Is Billy Walker still here? He had to leave.

OK. That gives Boots McKnight a shot at us. J.R. "Boots" McKnight has a question about the dairy programs.

STATEMENT OF J.R. McKNIGHT, DAIRY FARMER

Mr. McKNIGHT. Well, thank you, Senator, Congressman Jones.

I am a little bit surprised to get to talk to you folks. And really, I do not have too many questions about the dairy program. But we have heard a lot of aches and ills today, and I thought it might be appropriate to mention something that may have kind of went right.

Senator SASSER. We would love to hear it.

EXTEND DAIRY PROGRAM

Mr. McKNIGHT. Well, of course, us dairy farmers, we do have our problems. I mean everybody is aware of that. Of course, I was just talking to a dairy farmer just a few seconds ago, and his son is closing out his dairy operation. I did not learn this until 2 or 3 days ago. One of the best, probably the best, most efficient dairy in our section.

And this dairy program that we have been into just a little over 1 year has been very, very, very effective, in my opinion. There are two great things about it that have worked right. One thing, it has actually cut production, which we were overproducing in the dairy industry just like we were corn, soybeans, wheat, many other things. Well, it has turned the trend down in production. And at the same time, it has done this without any expense to the taxpayers and the Government.

By this method, I mean it has been financed by the dairy farmers ourselves. It is the only program, the only farm program that I can remember in the history that has been effective and has been no cost to the taxpayer. And this program is only going to last 3 more months. It will end March 31. And unless there is something enacted in Congress to extend it, then that will be the end of it. It has not solved all the problems but it has been a trend. It is in the process of solving it, and think that if the program was extended for some time longer, I think it would solve the problem. And it is about the only farm problem that is—looks like it might be kind of on the way to being solved.

But again, I would certainly like to stress and let the general public know that this diversion program that some of us dairy farmers did participate in has been funded—this 50 cents per 100 takeout of all the dairy producers. And it has been funded that way and it has helped the farmers, the dairy farmers that has participated in it and it has also helped the dairy farmers that had not participated.

Now, again, it has not solved all the problems because we do have dairy farmers that are not making a profit that is going out. But, I believe the trend is turning and I believe if it could be continued, I believe it might just solve the problems.

Thank you.

Senator SASSER. Thank you very much, Boots.

We have one final person. Bob Hendricks, a past board member of the Farmers Credit Administration. Bob wants to make a statement here today.

Welcome, Bob.

STATEMENT OF BOB HENDRICKS, PAST BOARD MEMBER, LOUISVILLE FARM CREDIT DISTRICT

Mr. **Hendricks**. Thank you, Senator and Congressman Jones. I hear a lot of talk about how much better off the economy is and how much better off we as people are today. But not long ago I was in a meeting at Circle Trust Committee Farmers Credit Bank in Louisville. Initially, economists or a group of economists showed us by graphs and charts how much better off we are today than we were in years past.

And I said to him:

> I am no economist and do not claim to be one. But the next time you are in your car and you are outside the city limits, I would like you to set your speedometer and ride 10 miles down any highway out of any city in a rural area. I would like you to count the number of "for sale" signs that you see in that 10 miles. I would like you to count the number of people that you see out picking up aluminum cans on the highway. And then I would like you to count the number of people who are standing in the cheese lines to receive commodities. And then tell me as an economist that we are better off.

I also asked him a question. I said:

> If the farmers of this Nation have debts including $216 billion—which figures we have heard here today—and if the national deficit stands at $215 billion, if the farmers have to pay their debt and their proportionate part of the national debt, how in the world can a farmer ever exist and come out of this situation?

AGRICULTURE LACKS INCENTIVES

I thank you for the privilege of appearing before you today. And this is a deep concern of mine that—and we are losing our young farmers—that there is no incentive for young people to get into agriculture. And it is also a proven fact that every dollar that the farmer receives turns over seven times. It is also a fact that for every dollar that the Government agencies give away, it costs $4 in administration costs to give $1 away. Now, I want to ask you, which one of those groups can show the most profit?

Senator **Sasser**. Thank you very much, Bob Hendricks.

Well, let me say that if anybody else wants to make a statement, we are out of time, and we have gotten all the names that have been submitted to us. We have taken care of those. If you want to make a statement, we are going to hold the record open until January 31. And you may mail your statement to my office in Jackson, TN, U.S. Post Office, room B-8. If you do not want to write your statement up, why just call the office there, it is listed under my name, Senator Jim Sasser, and we will have one of the stenographers take down your statement and submit it in this record for you.

Let me on behalf of myself and Congressman Ed Jones thank the witnesses for taking the time to testify today before this congressional committee.

This testimony received here today will be reprinted and it will become a part of the Congressional Record. It will also be studied by the staff of the Senate Budget Committee, and particularly that portion of the staff which has a responsibility for making recommendations with regard to funding or lack of funding for various farm programs.

As the chairman of this meeting, and Congressman Jones, with your permission, I am going to officially adjourn the meeting.

[Whereupon, at 12:20 p.m., the committee recessed, to reconvene subject to the call of the Chair.]

[The following was received for the record:]

Jan, 18. 1985

Dear Mr Basser,

thanks for the comments in The Courier Chronecle Paper, Jan16 1985; "Grim Outlook;"

I Am the Mother of A young farmer struggling to pay for a home to raise his family And give the Children the good life of living on the farm land, Also a Mother-in-Law of a farmer, so I am realy Cosarnid about out Country future not many young men will return to stay on the farm. And what will our Rich + the poor do without them other countrys Are going down the drain fast, so will we, we Cant Controle the Lords work and wish for perfect weather so we struggle to do our best.

When our Government forgets where our sourse of food comes

& from their will be plenty of Trouble They wont to Cut All the programs that help the little man but no dont tuch the rich's Pocket book the Wasington employes dident Cut their salarys they get a raise All ready they have big Salarys expence Acc, Hotels for them to carry their girlfriends & all so All their Liquor Paid for what else could they wont,

But the S.S. that is realy burning their minds they dont think about most of us worked for that, I worked 32 yr. only get $396.00 mo & Jan 1. raise Also I am a widow with the same expense both of us had I have [illegible] utilities Phone up keep of a Car 1977 model maintain My home clothes food Medicine & Dr bills.

Welfare that is a wonderful thing I am sure for some folks but it has made lyers & thieves out of lots of them, their isnt enough honest folks to Catch the dishonest.

3. the meals on wheels Are good also but at least 1/3 to 1/2 of the food goes to the garbage Can and never tuched I know that for sure because I have worked with the elder folks. these towns that have the meals delivered for the older ones to eat Are also wrong any body that has a Car and Can go to get them meals Can go any where that is also a waste they Pay people to prepare it deliver it then people to serve it and look what it Costs us tax payers. I think the time has come for the filthy rich to bring up their Part, us little folks & the ones that wee work are carring the load for All, these other Countrys gets what they want from us.

Now work on the ground thats keeps us little folks nose to the grind stone to try to squeeze by.

It burns me up to be in a grocery store and see some One with a big buggy of grocerys including the very best of cuts of meat go throug the line

4. and pay for every items with food stamps. 40.00 to 60.00 & more, then go out the door put the gro, in a big fine Car. go next door buy 24 cans of beer pull out a $20.00 bill & pay for their beer. Also folks that lives in fine brick house, get their taxes pd. Utilities for 2 month also their houses Insulationed free then go shopping buy $250.00 Suits, shoes then brag about what they can do. You big folks dont have any Idea what goes on with the tax money but let us middle Class educate you. we are tired. I voted for you & Mr Jones please help us

Also My Son & Son in law was in the Bank Rupency of the Trenton Soy bean storage that stold the beans which left over 100 Gibson farmers holding the bag, my two lost over a hundred thousand dollars & will never get 1 cent.

they had all of that expence to raise them to be pd. out of other crops they were never get over that deal

5. that is another law that is to slack I do know there is sometimes that it may be necessary but that law should be changed. it may through my family in one but it will be because they are the victoms of some one else wrong doing.

Thank you for giving me the chance to write I am not a smart person but some of us older people have been all along this road and hate to see this younger group half the experence, I would like to meet you sometime,

Thank you

Mrs Lola Mae Barrett
930 N. 29th Ave
Humboldt, Tenn. 38343
Phone 901-784-3160

GREEN ACRES DAIRY

P. O. BOX 549 • MILAN, TENNESSEE 38358 • TELEPHONE 686-7207

January 22, 1985

U. S. Senator Jim Sasser
U. S. Post Office
Room B8
Jackson, TN 38301

Dear Jim:

Sorry I was out of town the day the budget hearing was held in Milan. I was attending a dairy meeting in Arlington, Texas.

We appreciate your holding the hearing here for area farmers and especially appreciate your presence and that of Congressman Jones.

I wish to have the following comments placed in the record in regard to the hearings:

> We have been well pleased with the current Dairy Diversion Program and recommend it be continued. It has been successful in cutting the national surplus of milk and trimming government costs by over one billion dollars. (See the enclosed ad)
>
> It's the most logical approach we've had, and it's financed by dairy farmers and the 50 cents 'milk tax'.

Sincerely,

Bob Parkins
Green Acres Dairy

Encl: Dairy Ad

cc: Congressman Ed Jones

SENATE BUDGET COMMITTEE AGRICULTURAL FIELD HEARING
PUBLIC HEARING TESTIMONY
TONY BRANNON
VOCATIONAL AGRICULTURE INSTRUCTOR
PEABODY HIGH SCHOOL, TRENTON, TENNESSEE

Much of the discussion we have heard today concerns whether or not young people will be able to become established in or remain in farming. This subject is extremely important to me because as a vocational agriculture teacher I deal with farm youth everyday. It is indeed frustrating to see capable, ambitious young farm youth rejected from the occupation they so eagerly seek. However, with agricultural budget cuts on the horizon, I'm afraid were going to diminish the opportunity of young people to become involved in farming.

One of the first things required of a freshman agriculture student is to learn the FFA Creed. The creed which begins "I believe in the future of farming ....." probably causes more mixed feelings for me than any other unit of instruction. Each time I hear this opening line I wonder "Is there a future in farming"? Or more specifically to the point, "Is there a future for the individually owned and operated farm"? In a time of high fixed production costs, increased operating expenses, exploding technology, computerization, sophisicated management and possible cuts in the Agricultural budget, this question becomes increasingly important. Farmers are going bankrupt right and left, farm prices are depressed and farm profits and incomes are so low they recall memories of the Great Depression; yet, I'm not willing to admit that there's not a future in farming. For a person with a lifelong dedication to agriculture, that would be a denial of everything I have worked for. I feel we must ensure that there will be a place on the farm for a new generation. People have learned to do without most things but we have not learned how to do without food. Because of this fact, the preservation of our food producers, our farmers and ranchers, must be our prime priority.

We are at a crossroads in American agriculture where we must decide whether or not we will adequately provide for a new generation on the farm. The primary essential to ensuring their future is to recognize that they need to make a profit. This problem has been with us for a long time and the solution is not easy to come by. I wonder how many factory workers would go to work, sign their paychecks back to the factory and give money out of their savings for the priviledge of working. This is what many farmers and ranchers are now doing. There will be no farmers tomorrow if we cannot win the battle of economics today.

We are at a crossroads in America. Hard decisions must be made. We all agree that the federal deficit must be reduced, but, should the farmer, our most important employers, bear the brunt of the economic cutbacks. If he is called upon to do this, most assuredly many of my students and former students will be forced to choose other occupations.

Whatever the outcome of these budget cuts I am convinced that present day farmers will pick up the pieces and remain the efficient producers which they have been in the past. Paul's words in Corinthians have never been more applicable. "We are afflicted in every way, but not crushed; perplexed, but not driven to despair; persecuted, but not forsaken; knocked down, but not knocked out." (II Corinthians 4 : 8-9)

IMPACT OF ECONOMIC AND COMMUNITY DEVELOPMENT BUDGET CUTS

THURSDAY, FEBRUARY 14, 1985

U.S. Senate,
Committee on the Budget,
Chattanooga, TN.

The committee met at 9 a.m., in the County Commission Room, Hamilton County Courthouse, Chattanooga, TN, Hon. James R. Sasser presiding.

Present: Senator Sasser.

Staff present: Lance Simmens, legislative assistant.

OPENING STATEMENT OF SENATOR SASSER

Senator Sasser. The hearing will come to order.

I would like to thank all of our participants for appearing here this morning for this hearing. This is a hearing held under the auspices of the Senate Budget Committee, and is the second in a series of hearings being held across the State of Tennessee to examine the impact of budget proposals on the State of Tennessee. The purpose of this hearing will be to determine what impact proposed budget cuts in economic and community development will have on the local economy of Chattanogga and Hamilton County.

TWIN DEFICITS THREATEN SUSTAINED ECONOMIC GROWTH

Now it is certainly no secret that the Federal Government is experiencing the largest budget deficits in the history of our Nation. Since 1981, we have effectively doubled the national debt from $900 billion to $1.8 trillion, and unchecked, the national debt could reach nearly $3 trillion before the end of this decade.

Coupled with this imbalance is a trade deficit last year which topped $123 billion, and which is expected this coming year to reach in excess of $150 billion. These twin deficits, the national budget and the national trade deficit, threaten sustained economic growth in the future. Unless we act to stem this flow of red ink and put this country's economic house in order, we run the danger of permanently thwarting the standards of living of our children and our grandchildren.

Now, the President of the United States has submitted a budget for fiscal year 1986 which, if accepted in toto by the Congress, would still leave us with a $180 billion budget deficit this coming year. The President's budget contains assumptions of severe spending cuts in areas of the budget which have traditionally been used to enhance the economic and community development of our urban and rural areas.

Included in these budget cuts, for example, are the elimination of the Economic Development Administration and the rescission of some $179 million from that agency's current budget. It also includes the elimination of the Appalachian Regional Commission and total rescission of uncommitted funds now held by that agency; the elimination of the Urban Development Action Grant Program; also, a 10 percent cut in the Community Development Block Grant Program; and the termination of the Tennessee Valley Authority's Regional Economic, Community, and Agricultural Development Programs.

EVIDENCE LACKING IN PERFORMANCE OF PROGRAMS

Now, budget cuts of this magnitude are sure to have adverse effects upon local communities striving to grow and keep pace with the growing complexities of the modern age. But what is perhaps most disturbing about these targeted program cuts is the lack of evidence which might suggest that they have not performed well in the past.

For instance, over the past 20 years. the Economic Development Administration has funded over 535 projects, providing well over 60,000 additional jobs in Tennessee. These funds have been used in the construction of essential community projects—expansion of water and sewer lines, factory renovations, improvement of schools and other public buildings.

The Community Development Block Grant and Urban Development Action Grant Programs have benefited the city of Chattanooga, for example, over the past few years. This year alone, Chattanooga will receive $2.7 million in Community Development Block Grant funds.

And since the inception of the Urban Development Action Grant Program, Chattanooga has received well over $21 million since 1978.

I well remember one of the telephone calls to President Carter, I think at the urging of some of the people in this room, maybe the distinguished county executive and others, to get a large—at that time the largest Urban Development Action Grant in the history of HUD for right here in downtown Chattanooga.

This program rests on the principle of public monies leveraging private capital and is a shining example of the sort of public/private partnership that is so essential to the revitalization of our cities. The TVA Complex here in Chattanooga, and the Chattanooga Convention and Trade Center are examples of where this public/private partnership works to build a community.

Now, termination of TVA's job creation and retention funds would result in nearly 8,000 jobs not being created and approximately 6,500 people not being adequately trained for job demands in the future for our State of Tennessee.

The budget proposals would also mean elimination of technical assistance to small businesses and investors here in Chattanooga and Hamilton County.

In sum, we are talking about some drastic changes in the Federal Government's involvement in the community and economic development area all across this country.

Well, this morning, I look forward to hearing from the witnesses. These hearings will provide us with an opportunity to hear how the decisions made in Washington affect those who are working at local government down where the rubber meets the road, and how these decisions will affect their programs on a daily basis.

We will begin this morning with the first panel of witnesses, which consists of three individuals: Mr. Dalton Roberts, the county executive of Hamilton County. Mr. Roberts has been the county executive since 1978.

Prior to that time, he served for 6 years as county manager and ran the city of Chattanooga Manpower Program.

Mr. Roberts received his bachelor's degree from Trevecca College in Nashville, a master's degree from the University of Tennessee in Knoxville.

He is an accomplished public servant and also a musician of some note in this area. So welcome, county executive.

Also Dr. Bob McAuley, the general manager of Partners for Economic Progress.

Prior to this position, he was general manager of the Economic Development Council for the Chamber of Commerce.

He has served as Director for Manpower Programs, Community and Economic Development for Hamilton County, and has been Deputy Director of the Peace Corps in West Africa.

He received his B.A. degree from Harding University, also an M.A. from Harding Graduate School of Memphis, and his Ph.D. in French at the University of Toulouse, France.

We also have with us Dr. Bill Bond from the Tennessee Valley Authority.

Dr. Bond is manager of the Office of Natural Resources and Economic Development for TVA, and has served in this capacity since 1983.

Prior to this, he was acting manager for Community Development in Knoxville for TVA, and assistant director for Agricultural Development from 1973 through 1979.

Dr. Bond received his Doctorate in Production Economics from the University of Illinois in 1959.

If our panel will be good enough to take their seats up here. Are there three chairs there? Just pull one over there. We will get underway.

Well, I know the county executive is not going to be intimidated here appearing on this panel with two Ph.D.s, and so we will start with him this morning.

Welcome, Dalton Roberts, and we look forward to getting your views and observations today.

STATEMENT OF DALTON ROBERTS, COUNTY EXECUTIVE, HAMILTON COUNTY, TN

Mr. ROBERTS. Thank you, Senator Sasser. It is a special privilege for the people of this county to have you here today, and a personal privilege for me to see you at any time. I appreciate the attention that you and your outstanding staff always give to the matters of local interest, local government and local economy that we bring to you from time to time. I commend you for the outstanding staff that you have made accessible to the people of this community.

Senator SASSER. Thank you.

ECONOMIC SITUATION STAGNANT

Mr. ROBERTS. It is certainly no secret to the people of this county that Chattanooga has had a stagnant economic situation for a couple of decades, and one of the bright spots in that stagnant economic situation that has helped Chattanooga to continue in some level of progress has been the infusion of Federal moneys and particularly those moneys which have generated a cooperative partnership between the private and public sector.

But, in recent months, we have had a great healthy movement toward a stronger economy.

Chattanooga is an old manufacturing town, and the statistics clearly show that manufacturing employment is going to decline in this country as a percentage of the total employment, with service areas in high technology jobs moving up.

So the economic revolution that we are going through is going to impact Chattanooga much more than it will most cities of comparable size because, at one time, we were the ninth most industrialized city in America in terms of the percentage of our population working in manufacturing.

By the year 2000, that is going to drop down to 7 percent nationally and possibly, the experts say, as low as 4 percent nationally. And I think even the most casual observers can see that a very industrialized economy such as ours is going to be impacted severely by those changes.

The reason for that stagnant economy over a period of a couple of decades, one was the absence of a city, county, and chamber unified program which we now have in place, and which is working very effectively. It is a program that we call Partners for Economic Progress.

It is supported jointly by our outstanding business leaders in this community who, in a recent study, were pointed out as being some of the best business executives in America. I think in terms of their commitment to this program, I would have to agree with that.

The second reason is the lack of sewered and zoned land. As late as 1978, we only had 1,400 total acres of sewered zoned land available for development, contrasted with Charlotte, NC, for example, which had 6,400 acres.

Much of those 1,400 acres that we had was certainly not in any position to be developed.

We have more than doubled now the amount of land that we have through the county's five industrial parks that are in some stage of development.

The third reason, in my opinion, for this stagnant economy that we have experienced was the lack of capital outlay funds for economic development in this community. And this is where Federal money has helped Chattanooga to be so much less impacted than many cities which have experienced the loss of many more jobs.

FUNDS ARE BEING USED FOR ECONOMIC DEVELOPMENT

Senator, all of our Federal funds in Hamilton County, except education funds, are being used in the field of economic development, all of them. And these funds are helping Chattanooga to develop an economy to adjust to this economic revolution.

I would like to just summarize what we are using those funds for in this budget year. For Community Economic Development Block Grants, $765,000; Economic Development Administration, $469,000; Appalachia Regional Commission, $720,000; the TVA Jobs Bill, $75,000; and revenue sharing, $2,450,000. That is a total Federal expenditure—not counting the education, which is $2 million—that is a total Federal infusion into this community directly into economic development activities, mostly into industrial parks themselves, into the sewering and zoning of land and making is available for new businesses of $4.4 million.

Even with this amount of money, which amounts to only 5 percent of our total county budget, 5.29, our Federal funds are down since 1981. For example, in 1981, 11 percent of our county budget was Federal funds, and now that figure is 5.29 percent.

Let me give you some specific examples of how this money is being used.

For example, a loan of $300,000, the Federal loan of $300,000 through Hamilton County, Federal loan, enabled Container General Corp. to keep 225 jobs in this community that they were going to have to close down.

Five companies are now in the Ooltewah Industrial Park functioning, five companies that were not going to have a local place and would have been operating somewhere else. And we could not have sewered that park without Federal funds.

We are using these funds to begin a river port here, and if the Federal Government is going to spend billions of dollars on the Tennessee Tombigbee, which puts Chattanooga 800 miles closer to the coast, and then not assist local government in establishing river ports along those waterways, it seems to me to be a wasted investment of the Federal dollar.

We have one of the best landfills in the Nation and transfer stations which have cleaned up this county. We have a landfill that is a model. We have people from all over the country coming in here to see it, and we could not have built that landfill add those transfer stations without Federal grants.

GOVERNMENT HAS BEEN EXCELLENT STEWARD OF FEDERAL FUNDS

I would say in terms of summarizing my view of the purpose of your coming here that this government has been an excellent steward of Federal funds. This government appreciates the fact that Federal funds are available to encourage government to get together with its business leadership to establish economic development programs. And that is exactly what we are using those funds for.

For example, 77 percent of our Federal revenue sharing money since we began receiving it has gone for capital outlay projects rather than to take over the operational functions that the people of this country carry.

On behalf of what the Mayor will surely be saying to you when he comes in terms of summarizing the UDAG Program, cuts in UDAG will certainly hurt the county too, because the city has had some outstanding UDAG grants and programs, and those programs have resulted in many new improvements here in the county, which are now on our tax rolls.

And in April, we are going to open a convention center. For the first time in history, Chattanooga will now be competitive in the field of tourism for large conventions.

It is my personal opinion, Senator, that some of the areas that are being fenced off from cuts in the President's budget are areas that are not productive in terms of jobs for the American people, in terms of helping communities adjust to this technological revolution we are going through, which is not only going to impact Chattanooga, but most of the major cities in this Nation, and particularly those that have traditionally been manufacturing centers. And some of those areas that have been fenced off are areas that I think need to be opened up by the Congress for very close scrutiny and review.

We certainly cannot allow a situation where we spend so much money on defense that we neglect the things that are going to keep America moving and so something about these other problems you have talked about, like balance of trade.

We can and will carry on without Federal funds, but we do have many problems. We have increases in many costs that local government is facing. The city is having some problems with their bond rating, and one of the citations in that bond rating reduction was that we did not have a real active dominant economy here, and that is something that is reviewed every time the county or city goes to market for bonds.

So I would say that a substantial reduction in these programs, minimally, will change what we have going now, which is a very healthy movement toward economic recovery, and in fact I believe that within a decade economic leadership in the South will slow that growth to a slow walk.

We have proven that we will use these funds constructively, and I appreciate an opportunity to give you this information for insertion into the national debate on the economy, and would be pleased to answer any questions, and the other panelists, or at whatever time you wish to, Senator. Thank you, sir.

Senator SASSER. Thank you very much, Mr. Roberts, for giving us your views.

And I must say that many of the things you had to say are very thought provoking.

We will move now to Dr. Bob McAuley, the general manager of Partners for Economic Progress.

STATEMENT OF DR. BOB McAULEY, GENERAL MANAGER, PARTNERS FOR ECONOMIC PROGRESS

Dr. McAULEY. I am the general manager of Partners for Economic Progress, Senator. We appreciate the opportunity to speak here today.

We will try to eliminate any duplications of what Dalton has said as much as possible. Where that is necessary, we will skip over them lightly.

Senator SASSER. Would you pull your microphone up just a little, sir?

Dr. MCAULEY. PEP is a nonprofit organization which is made up of the city and the county and chamber of commerce and the private industry council, and our objective is to provide coordination and focus on the opportunities for the continued economic development of this entire area.

IMPACT OF INVESTMENTS BEING REALIZED

Over the past decades, investments have been made by several Federal agencies in our community, and their impact is now being fully realized.

The Economic Development Administration made investments in our downtown in the construction of a public parking facility and development of the first phase of market center. Other public investments were made in subsequent phases of redevelopment of the downtown and, as a result, private investment and development also flourished in our downtown area.

UDAG grants were also utilized to leverage large investments from the private sector, and today our downtown is a symbol of the economic visibility of the city.

As Dalton said, in recent years, our area was not able to compete effectively in locating new industry to our community. Today, with major investments in our infrastructure, we are able to provide adequate services to companies seeking to expand in our area. We have adequate utility capacity.

What is more important, we actually have an available inventory of developed or developing industrial lands from which industries can choose to meet their development needs.

The Appalachian Regional Commission and Economic Development Administration have assisted in the development of the Ooltewah Industrial Park.

Five new industries located in the park, as Dalton has said, even before construction began, three were committed to the park.

Additional economic development is also occurring in the area as a result of new sewer service to the area, provided by the project to the general vicinity.

Community development block grants allow for the development of the Soddy-Daisy Industrial Park with the extension of the Chattanooga sewers to the park and upgrading of the water system in the area by the ARC. Soddy-Daisy is now prepared to meet its potential with new industrial growth anticipated for the area.

Another project currently underway is the development of the Bonny Oaks Industrial Park. It is a 309-acre industrial park just now being developed. However, the sewers serving the area, which makes that development possible, was in part funded by a grant from the ARC in the 1970's.

The first major industrial area that is being developed for the area now is the new river port to serve our region, center south facility, located in the Amnicola area, and what will be a premier facility linking area business to the seaport of Mobile to the Tennessee-Tombigbee. Without the ARC, this project could not be reality.

These projects I have mentioned are not but a few of the economic impacts Federal investments have had on our area.

Through ARC, the town of Signal Mountain, for example, was able to upgrade its water system for the expansion of a major retirement center which draws people from all across the Nation.

EDA made investments in the Martin Luther King Blvd. area, which is now undergoing revitalization and EDA contributed to the availability of economic development personnel in the region through grants to these 9th Street corporations, area council government, city of Chattanooga.

An EDA grant to Chattanooga contributed to the development of an SBA Certified Development Corp. for the region, and even to the forerunner of the Economic Development Council.

OTHER INVESTMENTS MADE IN COMMUNITY

There have also been other investments in our community that have contributed to the general development of our area as a great place to live and work.

Few of our citizens realize the adversity and investments which the ARC has been involved in. These projects include the assistance and development of the Orange Grove Center for the Mentally Retarded, Erlanger Hospital, Chattanooga/Hamilton County Bicentennial Library, Lovell Field Municipal Airport, area vocational and technical high schools, Productivity Center and Robotics Program, which is now open at Chattanooga State, has also assisted through the Appalachian Regional Commission.

Projects with which we are currently involved in our Economic Development Program include a new Light Industrial Incubation Center, in which we are asking ARC to assist; development of a system for economic development financing in which we are planning on utilizing a diversity of programs to assist the private sector in bridging financing gaps.

Programs anticipated to be used include those of the Small Business Administration, HUD, Appalachian Regional Commission, Economic Development Administration, and any other local resources we hope to develop.

In large part, the idea for this local economic development financing assistance system was an outgrowth of a small Federal grant loan, which was made to a local industry and to which Dalton made reference. This loan enabled the company to retain 225 local jobs, and over time the loan will be paid back to the government.

Small investments by agencies, such as the ARC and the EDA, have paid large dividends in Chattanooga and Hamilton County.

TAKE COMMONSENSE APPROACH

What we are requesting today is that a commonsense approach be taken to these programs and their continuance. Evaluation of costs and effectiveness of each program should be the basis for decision. Such evaluation should result in some programs being continued, others eliminated, and in some cases orderly phasing out of programs.

And this is exactly what Democratic and Republican Governors across Appalachia developed in a finish-up program for ARC.

These perhaps are important to our economic development effort. I would ask for your support in seeing the projects which are currently in progress, such as our Industrial Incubator, are not rescinded, but are allowed to go forward.

I would also ask that you continue to support the effective programs and agencies, such as the Small Business Administration, the Economic Development Administration, the Appalachian Regional Commission, and Housing and Urban Development. These programs assist us in providing opportunities for our people, our area and in the long run, give back to our Federal Government more than they take.

This community is poised on the brink of a major breakthrough in economic development. The Northrup King Seed Co. location, the opportunity to have the first assembly plant in the United States of Komatsu, Limited, and the expectation of establishing the first Business and Technology Center of Control Data Corp. to be located in Tennessee, created more than a little hope for Chattanooga. But we will need all the tools, especially in the development of industrial parks and incubator space in order to compete with the best of them. Thank you, sir.

Senator **Sasser**. Thank you very much.

We will hear now from Dr. Billy Bond of the Tennessee Valley Authority.

STATEMENT OF DR. BILLY J. BOND, MANAGER, OFFICE OF NATURAL RESOURCES AND ECONOMIC DEVELOPMENT, TENNESSEE VALLEY AUTHORITY

Dr. **Bond**. Thank you, Senator Sasser.

I previously submitted a rather comprehensive statement to your staff, and so this morning I will make—just kind of summarize some of the highlights of that.

Senator **Sasser**. Your full statement will be made a part of the record, Dr. Bond.[1]

Dr. **Bond**. TVA does want to thank you for allowing us the opportunity to appear here today and to talk about the programs and projects of TVA, that area involved in Chattanooga, as well as Tennessee, and a few things that are, you know, that are regional in scope.

TVA BUDGET APPROPRIATIONS USED ONLY FOR NONPOWER PROGRAMS

The fiscal year 1986 budget presented by the Administration to the Congress calls for a 70-percent reduction in the appropriated budget of the Tennessee Valley Authority. Because you are holding this hearing in Chattanooga, which is the headquarters of TVA's Power and Engineering Program, and for the benefit of the public and the media, I would like to emphasize that the appropriated budget of TVA is used only for TVA non-power programs. Similarly, power rates paid by consumers of TVA electric power are used only for the power programs.

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[1] See p. 71.

This is something that is typically difficult for many of the public and media to understand.

Senator **Sasser**. I might say, Dr. Bond, that even OMB Director David Stockman does not understand that. I tried to explain that to him 2 years ago, but I do not think he has quite grasped the concept yet that there is a difference, and that the people of the rest of the country are not subsidizing TVA power rates. I think he still believes that.

Dr. **Bond**. That is something that the TVA very conscientiously keeps separated, as you know, sir.

The nonpower programs that I would like to briefly discuss with you today are funded by tax dollars appropriated by the Congress. These tax dollars are used in programs to promote economic growth and jobs, natural resource development, environmental improvement, and sound farming practices in the TVA region and the Nation. TVA's efforts are focused on strengthening the growth of private enterprise and promoting greater self-reliance among local communities. Technical assistance, not large grants, is the principal form of assistance from TVA. State, local, and private sector commitments generally exceed TVA's expenditures in any project which we are involved in. We also use the concept of demonstrations to broaden the impact of our project investments and we have developed an extensive network of partners to avoid duplication and overlapping in our economic development work.

TVA's programs to promote private sector job creation and general economic development within the State and region would be totally eliminated under the administration's proposal. This would affect employment and income levels throughout the State.

As you mentioned earlier, Senator, it is estimated that TVA's loss of funding would result in nearly 8,000 jobs not being created in the State of Tennessee, and approximately 6,500 people not being trained for job demands that are expected to occur in the future.

A study by TVA found that more than 50 percent of all new jobs created in Tennessee came from the expansion of existing industries in our State.

As a consequence, we have concentrated much of our effort on a program called the Existing Industries Program, which provides some resources for training to industries and technical assistance which helps companies reduce their operating costs and prepare and provide the opportunity for expanded production. Last year, we worked with 39 companies in Tennessee to help them on the expansion program. Nine of those companies are located here in Hamilton County. In 1985, this program will help at least 100 firms create 3,000 new jobs in Tennessee. As an example of what this type of effort can achieve, the pilot project for the existing industries program was begun in 1983 just across the State line in north Georgia. When the project was completed, it had generated 21 private sector dollars for every dollar TVA invested in the program.

TVA PROGRAM HELPING EMPLOYMENT NEEDS

TVA's industrial skills training program is helping Tennessee meet the employment needs of both new and expanding--new and existing industries.

And as an example, in this area I would like to mention TVA and Chattanooga State Technical College have worked cooperatively to establish a high technology automated manufacturing factory of the future training center. This factory of the future is providing training in short courses for industry, a 2-year associate degree in advanced manufacturing technology, retraining of displaced workers whose existing skills are not in demand in today's economy, and short courses for high school and college technical teachers and instructors. Already, 900 students have been trained in the displaced worker phases of the program.

TVA's Navigation Development Program is providing assistance to local governments, port authorities, and private industry interested in utilizing the Tennessee River Waterway. With the opening of the Tennessee-Tombigbee Waterway, there will be increased demand for assistance in designing and developing ports in Tennessee, and planning for more modern navigation locks would be necessary. With no funds in 1986, TVA would not be able to assist Tennessee in achieving the maximum benefit from the Tennessee-Tombigbee Waterway.

BUDGET REDUCTIONS WOULD ELIMINATE WATER RESOURCE PROGRAMS

The proposed budget reductions will eliminate all water resource programs of TVA, including a significant amount of work on one of the most polluted streams in Tennessee, Chattanooga Creek. Over the past 5 years, TVA has invested nearly $200,000 in appropriated funds on two environmental studies as well as participated in the Chattanooga Creek Task Force. The first study was an investigation of priority pollutants in sediments and water in the creek. Results of that work led to the formation of the task force and a joint EPA/TVA/State study which better identified the locations of old dump sites.

In fiscal years 1983 and 1984, we collected fish samples from both the creek and Nickajack Reservoir to determine whether the contamination extended to the fish population in the reservoir. Results of that work show that the contamination is limited to Chattanooga Creek. TVA will continue, depending on funding, to participate in a task force and assist with plans for capping the dumpsites and other corrective measures that will be needed to clean up on Chattanooga Creek.

TVA's Agricultural Development Program, here I would like to deviate a little bit from the Chattanooga area.

TVA's Agricultural Development Program in the Tennessee Valley region would also be eliminated, including our work on cooperative demonstrations of more than 600 Valley farms and demonstrations with land grant universities.

The budget cuts would also eliminate a TVA assistance program involving more than 18,000 low income families, under which participants are provided a few dollars worth of seed and fertilizer and grow an average of $600 worth of food.

EROSION CONTROL PROGRAM WOULD END

The current budget proposal would end TVA's Erosion Control Program, which is a cooperative effort with other Federal and State agencies and landowners to protect farmland and reduce the loss of topsoil. This program is currently making significant gains in reducing erosion in west Tennessee.

Senator, as you know, the focus of TVA programs that I have previously mentioned today is to make things happen in Tennessee that would not happen without the TVA programs, and the history of this region shows that TVA's programs have helped achieve many improvements. The continuation of such programs would better enable the economy of Tennessee to catch up with the economic recovery enjoyed by the rest of the Nation.

Just as the other panelists said, I will be glad to answer any questions.

Senator SASSER. Thank you very much, Dr. Bond.

[The prepared statement of Dr. Bond follows:]

TESTIMONY OF DR. BILLY J. BOND
BEFORE THE U.S. SENATE BUDGET COMMITTEE
CHATTANOOGA, TENNESSEE
FEBRUARY 14, 1985

Mr. Chairman, my name is Dr. Billy J. Bond. I am Manager of the Office of Natural Resources and Economic Development for the Tennessee Valley Authority. My mailing address is TVA, Old City Hall Building, Knoxville, Tennessee 37902.

Thank you for allowing me the opportunity to appear here today and to testify before this committee about the programs and projects of TVA in Tennessee and the Valley.

The fiscal year 1986 budget presented by the President to the Congress calls for a 70 percent cut in the appropriated budget of the Tennessee Valley Authority. Because this hearing is being held in Chattanooga, the headquarters of TVA's Office of Power, and for the benefit of the public and the media, I would like to point out that the appropriated budget of TVA has nothing whatsoever to do with power rates paid by consumers of TVA electric power.

The programs I am going to briefly discuss with you today are funded by tax dollars appropriated by the Congress and are used in programs that promote economic growth and jobs, natural resource development, environmental improvement, and sound farm practices in the TVA region. The 70 percent budget cut will eliminate most of TVA's regional development activities. Most of these programs do not involve large operations or construction projects, or big Federal grants. Instead, they have relatively small budgets and staffs to provide technical and other help to state and local governments, businesses, farmers, and landowners.

To put this in perspective, the cost of these TVA programs is about 1 percent of Federal spending on natural resources. That, in turn, is only about 1 percent of the total Federal budget.

I feel programs that promote economic development and job creation are more important to Tennessee and the Valley today than ever before. The TVA region, in which Tennessee is the dominant state, has an average per capita income of just under 80 percent of the national average. Just a few short years ago, the average per capita income in our region was slightly higher, but now we are slipping back down the scale. Economists tell us that Tennessee and the region are responding much more slowly to economic recovery from the twin recessions of 1981 and 1982 than the rest of the Nation.

At the beginning of the 1985 fiscal year, about one of every four counties in the Tennessee Valley had recorded unemployment rates at least twice as high as the national average. The year 1979 was a peak employment year in the Tennessee Valley region. In non-metropolitan areas of the Tennessee Valley, employment levels at the beginning of the 1985 fiscal year were only 97 percent of those 1979 levels.

We have calculated, with the assistance of the University of Tennessee, that at the very minimum a 70 percent reduction in the TVA appropriated budget will mean a loss of 3,000 jobs for TVA employees and contractors, and will cause an additional 1,800 jobs to be lost in retail trades alone. Just the loss of these jobs will have an impact of $156 million lost in the retail sector.

Perhaps I can put this in the proper context if I give you a rundown of what will be lost in Tennessee if this budget reduction proposal stands as it is now.

TVA's programs to promote private sector job creation and general economic development within the State and region will be totally eliminated under the administration's proposal. This will severely impact employment and income levels throughout the State. Overall, it is expected that TVA's loss of funding would result in nearly 8,000 jobs not being created, and approximately 6,500 people not being trained for job demands in the future for the State of Tennessee.

Perhaps more significantly, the aid provided by TVA to communities in preparation for economic development will not continue, and the State's advantage would not be demonstrated to prospective industries, resulting in the lack of creation of countless future jobs.

TVA has identified the region's 50 poorest counties, and we have developed the Special Opportunities Counties and Cities Program to place renewed emphasis on economic development in these counties. Presently, 24 of these counties are in Tennessee. A loss of funding in FY 1986 will result in a loss in this program of $1.8 million in capital expenditures and 800 new jobs in Tennessee.

A study by TVA found that more than 50 percent of all new jobs created in Tennessee come from the expansion of existing industries in our State. We developed a program called the Existing Industries Program, which provides some money for training to industries and technical assistance which helps companies reduce their operating costs and prepare for expanded production. Last year we worked with 39 companies in Tennessee to help them expand. Nine of those companies are located here in Hamilton County. In 1985, this program will help at least 100 firms create 3,000 new jobs in Tennessee. Zero funding in 1986 would, of course, totally eliminate this effort. The pilot project for the Existing Industries Program was begun in 1983 just across the state line of north Georgia. When the project was completed, it had generated 21 private sector dollars for every dollar TVA put into the program.

TVA's Industrial Skills Training Program is helping Tennessee meet the employment needs of both new and existing industries. The proposed funding cuts to TVA would totally eliminate all job training and skills development programs funded by TVA. In 1984, with TVA's assistance, more than 11,000 people were trained and placed in private sector jobs paying an average wage of $8 per hour. These job training efforts in 1984 alone are expected to add about $121 million in annual wages to the Valley's economy. No funding in FY 1986 would result in approximately 6,000 individuals not receiving advanced training in high technology fields in Tennessee.

Also, a lack of funding would prevent the development of a new statewide statistical quality control training program jointly carried out with the Tennessee Industrial Training Services. This program would retrain annually approximately 500 Tennesseans employed by Tennessee industries. Through these joint training activities, more than 2,500 new jobs are created annually, resulting in almost $96 million in economic activity in Tennessee.

TVA and Chattanooga State Technical College have worked cooperatively to establish a high technology automated manufacturing "factory of the future" training center. This "factory of the future" is providing training in short courses for industry, a two-year associate degree in advanced manufacturing technology, retraining of displaced workers whose skills are not usable in today's economy, and short courses for high school and college technical teachers and instructors. Already, 900 students have been trained in the displaced worker phases of the program.

TVA's Forest Industry Development Program provides technical assistance and helps site new plants in this industry. Based on past performance, the program in 1986 would provide technical assistance to 110 firms and help site 21 new plants which would create 1,050 new jobs in Tennessee. All of this would be lost if funding for this program is denied.

TVA's Navigation Development Program provides assistance to local governments, port authorities, and private industry interested in utilizing the Tennessee River Waterway. With the opening of the Tennesse-Tombigbee Waterway, there will be tremendous demand for assistance in designing and developing ports in Tennessee, and planning for more modern navigation locks will become necessary. With no funds in 1986, TVA would not be able to help Tennessee benefit from the Tennessee-Tombigbee Waterway.

Tourism is Tennessee's third largest industry, generating $3 billion in 1982 and employing 76,000 people. In recent years, TVA's tourism and recreation programs have assisted 51 communities, 26 attractions, and 48 travel businesses in Tennessee in capitalizing on tourism opportunities.

Mr. Chairman, the proposed budget reductions would eliminate all water resources protection, fisheries management, air quality, flood hazard information, and floodplain management programs. Stewardship of TVA land and facilities would be severely curtailed. Demonstration and transfer of better methods of management and operation of natural resources would no longer take place.

The Land Between The Lakes would no longer serve as a national demonstration in outdoor recreation, environmental education, and natural resource management. This area is the focal point of a $150 million annual tourism industry in Tennessee and Kentucky. It has been estimated in a study conducted by Murray State University that the closing of Land Between The Lakes could result in as many as 1,800 tourism-related jobs being lost in Tennessee and Kentucky, as well as 300 jobs at LBL.

In addition to the effect on regional activities, the budget cuts will have a major effect on the national fertilizer development program. About 75 percent of the fertilizer produced in this country uses products or processes developed by TVA scientists and engineers in the National Fertilizer Development Center at Muscle Shoals, Alabama. No comparable center exists anywhere else.

The budget cuts would mean disbanding a major part of the staff at the Fertilizer Center. While some fertilizer research would continue at a reduced level, no funds are included for developmental production and national introduction programs that get new fertilizers tested and used by private industry and the Nation's farmers.

TVA's agricultural development program in the Tennessee Valley region would be eliminated, including cooperative demonstrations on more than 600 Valley farms and demonstrations with land grant universities.

The budget cuts will also eliminate TVA assistance to more than 18,000 low-income families who take a few dollar's worth of seed and fertilizer and grow an average of $600 worth of food.

The current budget proposal would end TVA's erosion control program, a cooperative effort with other agencies and landowners to protect farmland and reduce the loss of topsoil. This program is making valuable gains in west Tennessee and other Valley areas that are vulnerable to erosion.

Work on developing renewable fuels is also eliminated. TVA is working on more efficient technology to produce fuel alcohol from the region's abundant supplies of low-grade hardwood. This has the potential to open the way for a new industry that could employ 30,000 people and generate $500 million a year in new economic activitiy in the region.

In going through this list of TVA's activities in Tennessee, it is not hard to see that all of them affect the economy of Tennessee in one way or another. They help in business and industrial growth, in farming and forestry production, in attracting tourism dollars, and in controlling environmental impacts of economic growth.

Tennessee's economic gains have been impressive over the years---from a per capita average income of only 42 percent of the national average in 1933 to almost 80 percent of the national average in 1985---but Tennessee has been slow to recover from the national economic slowdown of recent times, and unemployemnt remains high.

The effect of the TVA programs I have discussed today is to make things happen in Tennessee that would not happen without them. And the history of this region shows that an improving economy can make a difference of billions of dollars in tax revenues to the United States Treasury.

Thank you.

Senator SASSER. Let me address a question first, if I may, to Dalton Roberts, then maybe get to the reaction of the panel.

ECONOMIC ASSISTANCE TO LOCAL COMMUNITIES IS COST EFFICIENT

Dalton, in your estimation, is it a cost efficient expenditure of Federal funds to provide economic assistance to local communities from vour point of view here as county executive? And in a county that is striving very hard in the field of economic development, do you consider this a cost efficient expenditure of taxpayers 'money coming from the Federal level?

Mr. ROBERTS. Senator, I believe it is probably the most cost-effective system that the Federal Government has. I know that the Federal Government is involved in a lot of maintenance activities and a lot of entitlement programs, and those certainly have their place. But when you look at it purely in terms of the contribution back to the Federal Government and income taxes from people who have jobs, in property taxes for the support of local government, these things are certainly most cost-effective. And I have seen many studies which show that the Economic Development Grant Program, Economic Development Administration and UDAG grants produce jobs and, therefore, back to the Federal Government taxes in excess of what the Government invests.

Now, that is not even to consider the local contribution. And as you said in your introductory statement today, the private contribution, for example, the city and the county put together a convention center here, but we did it in conjunction with a private developer who has a multimillion dollar investment in downtown Chattanooga now.

And our river port that we are proposing, which is certainly a priority thing to us, 300 acres of prime riverside land that has gone through every kind of study that you can possibly imagine, and environmental impact statements and all kinds of ecological considerations, and our water supply, which is located downstream, the local taxpayers will pick up 35 percent of the local tab on that.

One of our industrial parks, Bonny Oaks, is entirely funded by local taxpayers.

So it seems to me that what we have going in economic development is a partnership of three things: Federal Government, local government, and the private sector meshing themselves together to move people into jobs.

Yes, sir; I believe it is cost effective. I think the most cost-effective program that the Federal Government has today are in the field of economic development.

Senator SASSER. Thank you.

Any other member of the panel like to add to that statement?

Dr. MCAULEY. That is perfect.

CREATE JOBS WITH PUBLIC FUNDS

Senator SASSER. I think that is a very fine statement. You know, we have moved from a posture back in the early days of the 1930s in response to the massive unemployment, Great Depression, when we were experiencing as much as 40-percent unemployment across this country, we moved from an area then of trying to create public jobs by public employment and now to a program of trying to use public funds to leverage private capital to create jobs, and we have found that to be considerably more cost efficient and more effective in creating jobs.

I was struck by something President Reagan said in his State of the Union Message 2 years ago. At that time, he said that for every 1 percent of unemployment in this country, it costs the Federal Treasury in the neighborhood of $28 billion. One percent of unemployment translates out to about 1,100,000 people who are out of jobs.

Now those 1,100,000 people have jobs, they are working and taxpaying citizens, they create tax revenues coming directly into the Federal Treasury, it flows from their economic activity, and the fact that they are not drawing unemployment compensation, that sort of thing, they create $28 billion worth of additional wealth in the Federal Treasury.

And so I have long thought that one of the best things we do at the Federal level is to use public money in conjunction with private funds to try to create jobs.

Now, it is clear what we have heard here today that, in the judgment of this panel, that the economic development assistance programs have benefited Chattanooga, Hamilton County.

Now, in terms of jobs created and also jobs retained, would you address yourself to that, as to whether or not the actual point of jobs, putting people to work, keeping them in in jobs, how effective have these programs been, in your judgment?

Mr. Roberts. I would defer to Dr. McAuley on that because he works with our PEP Program. He is more aware of the broader range of activities outside of county government, and I think he can address that better. But I certainly go on record myself as saying that they have enabled us to not only keep jobs, but to get new jobs.

OVER A THOUSAND JOBS CREATED

Dr. McAuley. Senator, I would like to see a breakdown of figures exactly relating to job retention and creation to these grants. However, I do not have those with me today. And then they are very difficult to get at.

But let us look just for a minute at the Ooltewah Industrial Park which is a small industrial park some 40-odd acres right along I-75 to the East. There, as we suggested in our remarks, the attention given to that little park, even before it was constructed, even before any improvements were made, was phenomenal. And three industries were ready to go before there was any dirt moved.

Figuring quickly in my head, those three industries, the number of jobs that were created there just through expansion, all of these companies existed in our communities, but would have had to leave our community to find space had we not been able to get that space available.

I believe that some 75 to 100 jobs in those three industries alone were created through that expansion, not to speak of the other industries which have come along since. And that one little community which was made possible by that sewer project, we will have over 150 jobs created out there. If you use normal figures as to how many jobs can be created on Bonny Oaks and on the river port, the River Port Center South Facility being one which would benefit from some Federal funds, we can assume that some 600, 700 jobs would come from river port alone, maybe over a 1,000 jobs would be created by these developments.

So these funds can be directly linked to new jobs through expansion and through new industry creation.

QUALITY OF LIFE DRAMATICALLY ENHANCED

Senator SASSER. Have the economic development assistance programs of the Federal Government and also the TVA, which is a quasi-Federal agency, have they been significant enough to affect the overall quality of life in Chattanooga, Hamilton County and surrounding communities, in the judgment of this panel?

Mr. ROBERTS. I guess that enables me not only to comment on the economic development programs that I have covered today but also on TVA.

I had not planned in the comprehensive remarks there, because I knew that we had a TVA representative here, but the impact of TVA economic assistance programs of all types, we have heard about some of those today, in agriculture and so forth, unquestionably have changed the life of the Tennessee Valley, and Chattanooga in particular.

I was born the same year TVA was. I can get pretty emotional about that particular subject because I remember how life was there. I have read by kerosene lamp, too, and I know how life was here when I was a small child. And the little community I was raised out here still has some little outhouses dotting the landscape out there, because it was a—it was a rather primitive level of life before TVA, not just in Chattanooga but in many areas, much more severe.

And to take an agency that has contributed so significantly to six States in this Union and helped those six States to raise the quality of life that their children can enjoy in terms of education, that their people can enjoy in terms of power and improved agriculture, and to rape that agency to the extent the budgetary cuts propose to me is political immorality. It is just shocking to me.

I stood on the side of Harrison Pike and saw President Franklin Delano Roosevelt drive in front of our little house when I was a child, and I know what life was like then, when he came here to dedicate the Chickamauga Dam. And I know what it is like now. And I think I know what it would have been like if TVA had not been here, not just with power programs, but with professional expertise to help us do things that we did not know how to do, with the concentration of resources that enabled us to do that.

Yes, sir; I am convinced that the quality of life in Chattanooga and the six States served by TVA has been dramatically enhanced, but not unfairly so, because you had a nation that, at that time, had some States that were crippled that could not compete with other States.

Chattanooga would not be here, we might not even be in this room today if it was not for TVA because we could have been washed down to Mobile by now or, minimally, down around Huntsville or Decatur.

This city has experienced severe floods. Those are quality of life factors and considerations.

I think TVA is going to have to have some cuts, the whole Federal bureaucracy is going to have to have some cuts, and I want myself to be very clearly understood today as a person who deals with the realities of government, that you cannot spend more than you take in.

GIVE US A CHANCE TO COMPETE

The Federal Government can legally, we cannot legally, but the Federal Government cannot do that consistently, decade after decade, without it doing something severe to the political lifestream of this country. And I support you, Senator, and I support our President and anyone else who tries to make meaningful, significant cuts. But give us a chance down here in the Tennessee Valley to compete. Do not rape our agency that helps us to compete, and give us some kind of economic development program.

Now, I got in preparation for this today, or at least your staff gave me some background, or gave my secretary some background things. One thing in there that interested me that your analysis or your staff's analysis was that Congress was looking at the possibility of two things: One was keeping Federal revenue sharing but eliminating some of the agency programs such as EDA and ARC. That might be the way the debate was emerging.

I would like to see something, a constructive proposal on the lines that if you are going to do this, if you are going to eliminate these agencies, keep revenue sharing, but allow it to be used, or a percentage of it, or require a percentage of it to be used in job producing activities, and then allow something in that Federal Government, like Governor Alexander and our State legislature has done in the better schools program to save the communities.

If you can demonstrate to us that you have programs that are producing jobs, we will give you some incentive, some incentive money here to reinvest back in your economy. And I think you will get a healthy competitiveness going between cities and counties in this country to come up with new ways to attract industry, new ways to improve productivity, new ways to hire more people.

I would like to see something like that. I have got a real substantial problem with bureaucracy in the sense of people supervising everything you do and standing all over the place, and the Federal Government has got a problem with that. State governments have got a problem with that. The fact these Federal programs are moved down to State level did not help a bit to remove bureaucracy.

I ask you to ask that question of every county executive and every hearing you go to. I believe every one of them will tell you that it did not reduce bureaucracy, Federal sharing has not.

I am sorry, Senator. I get a little emotional.

Senator **Sasser**. Thank you very much.

That is a very eloquent statement in behalf of the Tennessee Valley Authority and also for economic development in this region.

I think you had some very good suggestions for us at the Federal level, how we ought to restructure some of these programs.

I have got one final question here, Dr. McAuley.

KOMATSU PLANT WILL USE UDAG FUND IF POSSIBLE

The Komatsu plant that is proposed here, is that going to be in any way dependent on getting Urban Development Action Grant funds to encourage Komatsu to come to Chattanooga?

Dr. McAuley. I think that it is projected that they will use a UDAG grant if that—or UDAG if that is possible.

I think they very much count on that, and it will facilitate, in terms of the IRB special, we call it, process taking the cap off the total amount of bond funds that they can—that they contain, that it will be very important in that process.

Senator Sasser. Do you have any way of knowing at this juncture whether or not it is going to be of critical or crucial importance in the sense that the UDAG is going to be a condition precedent to them carrying through with their plans to come to Chattanooga, or do you know at this time?

Dr. McAuley. I do not think anyone knows at this time, Senator. I would say it is a good bet that it is going to be very important.

Senator Sasser. A discussion with Komatsu about whether or not the UDAG grant will be available has been part of the initial discussions or negotiations, is that a fair statement?

Dr. McAuley. From about last May, that has been mentioned prominently in every discussion.

Senator Sasser. I do know that in encouraging other industry to come into other areas in Tennessee, and particularly a Japanese company, the question of Urban Development action grants have been very critical, in the final analysis have tipped the scale or tipped the balance one way or another as to whether they did come in. It has been the case in Memphis and in other cities across the country.

Well, gentlemen, I want to express my thanks to you for coming here today and giving us the benefit of your views, and my special thanks to the County Executive Dalton Roberts.

I want to say to all of you that your statements and your remarks this morning will be part of the record and part of the minutes of the Budget Committee of the U.S. Senate, and when we get down to deciding and making allocations, that your statements and your remarks will be reviewed and hopefully will have some substantial impact on my colleagues. I know they have had a substantial impact on me this morning.

And thank you very much.

Our next panel this morning is Mr. Chuck Straub, the Director of Community Planning and Development for the Department of Housing and Urban Development or HUD.

He is headquartered in the regional office in Atlanta. He has been in that position since 1976, and has been with HUD since 1968.

Mr. Straub was special assistant to to Regional Administrator and deputy assistant regional administrator for the Model Cities Program.

He received his B.A. degree in political science from Florida State University.

He will be joined by Mr. R.L. Ramsey. Mr. Ramsey is executive director of the East Ninth Street Community Development Corp.

Prior to assuming that position, he was the regional land use planner for the southeast Tennessee development District for 9 years.

He received a B.A. degree from Alabama A&M University in 1969, a master's degree in regional planning from the same school in 1971.

We have on this panel also the Honorable John Franklin, the vice mayor of Chattanooga.

Is Commissioner Franklin here today? I know that he had to go to a commission meeting so perhaps he can join us at a later time.

Why do we not begin with Mr. Straub and Mr. Ramsey. Are they both here? If you both will come forward, please.

Gentlemen, welcome, and why do we not begin this morning with you, Mr. Straub. You have traveled the longest distance to be here with us so we will start out with you and shift over to Mr. Ramsey.

Welcome to both of you.

STATEMENT OF CHUCK STRAUB, DIRECTOR, COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. **Straub**. Thank you, Senator.

I am here today, of course, to represent the Department of Housing and Urban Development in response to your request you made to our headquarters office in Washington.

Senator **Sasser**. I want to express my appreciation to HUD for all the help they have given this city with UDAG grants and other helpful grants over the past few years. If you look around downtown Chattanooga, you see the fruits of some of your labor right here.

Mr. **Straub**. We sure can. The city has done an excellent job of administering our grants over the years, and it has been one of our prize cities.

We have given a couple of awards in economic development really with the work that they have done, particularly in the downtown development work they have done, so we are very pleased and very happy and very proud of Chattanooga.

I am actually an implementer of policy. I am not involved in national policy formation, and I am at a slight disadvantage or a large disadvantage, I do not know which, in totally giving you the rationale behind some of the budget cuts that will be presented here this morning.

As you know, the Community Development Block Grant Program is authorized by title I of the Housing and Community Development act of 1974. The act has been amended several times, and it provides for grants in U.S. and local government.

A wide range of physical, economic and social development activities are eligible, and I will not list those here for the sake of time, but I think you have got some idea of those from the presentation earlier.

ACTIVITIES UNDERTAKEN ARE BASED ON LOCAL PRIORITIES

Activities undertaken by communities are based on local priorities and not dictated by the Federal Government. However, each of these activities must benefit low and moderate income persons or aid in the prevention and elimination of slums or blight, or meet particular urgent community development needs as certified by the grantees. The act in 19—was amended in 1983 to require 51 percent of all of our funds to benefit low and moderate income persons. The budget provides this year for a reduction in the funding level for the Community Development Program of 10 percent. This would result in a decrease of $374.2 million for the 1985 funding level.

The 1986 budget requests $3.1 billion for the Block Grant Program. Assuming continued economic growth and its deficit reduction, the budget predicts a $3.3 billion CDBG Program for 1987 and a $3.4 billion program for 1988, bring approximately the funding level that we have had in '85, will have had in '85.

In 1986, the budget proposes that the split of CDBG funds between entitlement and the non-entitlement categories, that is the large city and the money administered by the State be changed from a 70/30 percent split of that money right now, with 70 percent going to the large cities and 30 percent to the States, to a 60/40 percent split, which would give 60 percent to large cities like Chattanooga and 40 percent of the money to the States.

This is being proposed to allow more of the community development activities currently carried out by the Farmers Home Administration to be undertaken by small communities to the State-community Block Grant Program. This is consistent with the budget proposal, as I understand it, the end of Farmers Home Support of public facility construction projects for rural communities.

The programs that would be eliminated by the Farmers Home Administration are the Business and Industrial Loan Guarantees Program which, in 1985, 1985 budgets funded $150 million; the Water and Sewer Facilities Program funded at $340 million; the Rural Water and Waste Disposal Grants, funded at $115 million; and the Community Facility Loans Program funded at $115 million.

The impact of the reduction in CDBG Program in Tennessee and Chattanooga would result in Chattanooga losing $625 million—$1,000, excuse me, $625,000 in 1986. Their 1985 grant is $2,717,000, and the—excuse me, is that better? The estimated grant for 1986, with this reduction and the transfer to the States, would be $2,092,000, for a total of $625 million—or $1,000 reduction.

The State would receive an increase because of the transfer of money. They are currently funded at $27,750,000. They would move to $33,236,000 for an increase of $5 million, about $5½ million.

The Section 108 Loan Guaranty Program, which is a part of the Community Development Block Grant legislation, allows loans to be made, cities to borrow money against future appropriations. They can borrow up to 3 years of their grant. Normal payback period of that is 6 years.

This money is loaned by the Federal Financial Bank and is being proposed for reduction because of the pressures it puts on the money market and the economic, with the economic conditions we have now.

We have only had one of those in Tennessee that I have been able to identify. That was in Nashville, Davidson County, and it was for about $2.5 million, I believe.

UDAG PROGRAM SCHEDULED FOR ELIMINATION

The Urban Development Action Grant Program is scheduled in the budget for elimination. That program is to assist distressed cities and urban counties to revitalize local economies and deteriorated neighborhoods.

We heard earlier about some of the things it has done here in Chattanooga. A combination of private and public investments are required with a statutory minimum ratio of $2.50 in private funds for every Action Grant dollar. An extraordinarily large number of financing arrangements may combine private funds and Action Grant funds, and other public funds for that matter. Funded projects are typically leveraged with an average of $6 in private dollars for every Urban Development Action Grant dollar in the project. They generate new permanent jobs, increase the local tax base, and usually allow for the local government to recapture part or all of the Action Grant funds from the private investor.

The UDAG Program is proposed for elimination as part of the Administration's effort to reduce local economic development subsidy programs and to help reduce the deficit.

Senator **Sasser**. Mr. Straub, as you know, the city of Chattanooga has been economically distressed for some years, has been working very hard to create jobs and economic activity here, and has enjoyed some degree of success in recent years.

The UDAG Program has been particularly helpful to this region, this county and city, and I think you heard a little earlier the testimony of Mr. McAuley in which he stated that the award of a UDAG Grant here may well be critical to the location of the Komatsu heavy equipment manufacturing facility here, which will create, I am told, hundreds of jobs in this area.

So I will have to say to you, as the representative of HUD here today, we are very distressed. I am very distressed to see that the Administration is recommending that we zero out the UDAG Program, because we have been able to use it here in this area and region, as you know, very effectively. And we certainly hope to keep the UDAG Program going until we can at least work out some arrangement with the Komatsu facility.

I just wanted to make that comment. Go ahead.

Mr. **Straub**. OK. Thank you, sir.

Now, Chattanooga has had seven UDAG grants. The last one, I believe, was approved about a year ago, little over a year ago.

MANY JOBS CREATED BY UDAG GRANTS

Tennessee, the State of Tennessee, has had 45 grants, and if you like, I have got data here that shows the number of jobs, number of dollars Tennessee has gotten out of those grants.

Senator **Sasser**. We would like very much to get that data.

Mr. **Straub**. I will give you the totals for the 45 projects. This includes some 30 projects in small communities and about 15 in large communities.

There have been about $72 million in UDAG dollars put into these projects. Private investment equals $460 million, and there have been 55 million other dollars in there that would be other local, usually public moneys that would have been invested sometimes to meet Development Block Grant dollars, sometimes some other Federal program.

Senator **Sasser**. Would you repeat that? I did not quite get all that.

Mr. **Straub**. The total UDAG investment in those 45 projects is $72 million; the total private investment is $460 million. There are other funds of $55 million that would be usually a Community Development Block Grant, the city using some of that money or some money from EDA, or something like that, that would have contributed that other $55 million. Sometimes other local funds from local tax sources.

Senator **Sasser**. You are leveraging about 600 percent private money for the UDAG money that has been put in?

Mr. **Straub**. Roughly. There has been a total investment, adding all these dollars together, in Tennessee of $587 million.

There have been 9,400 jobs created, permanent jobs. Those are jobs that will continue into the future.

And local taxes have been increased, and this is either in tax dollars or payments in lieu of taxes.

Senator **Sasser**. These are revenues flowing to local——

Mr. **Straub**. To local government.

Senator **Sasser**. As a result of this job creation?

Mr. **Straub**. Right. And this is in addition to payback the local governments would receive from the private concern. This is $5,600,000 annual payback, you know, annual tax. That is since the inception of the program.

Senator **Sasser**. Those are very impressive figures.

Mr. **Straub**. Applications have been exceeding our moneys in the last--since really the beginning of calendar year 1984. We have had less success in getting projects.

Senator **Sasser**. Less success and, as you may know, we are on the verge of changing the formula so that we can have a better shot at it here in the Southeast. I have met with Secretary Pierce on two occasions about that, and even got a formula changed through the Senate in the closing days of this past session but, unfortunately, the House closed down before we could get them to adopt the legislative formula change. But we are going to be back again this spring, if we keep the UDAG Program going and try to restructure the formula once again.

Mr. **Straub**. It is extremely important to Tennessee and to the Southeast. That really concludes my——

Senator **Sasser**. All right, sir.

Mr. Ramsey, we would like to hear from you now, please, sir.

STATEMENT OF R.L. RAMSEY, EXECUTIVE DIRECTOR, EAST NINTH STREET COMMUNITY DEVELOPMENT CORP.

Mr. **Ramsey**. Senator Sasser, I was very elated this morning to have the opportunity to be here. On behalf of my Board of Directors and staff, I bring you greetings.

Senator **Sasser**. Thank you.

Mr. **Ramsey**. I am the Executive Director of the East Ninth Street Community Development Corporation. This corporation was created in 1978 as a viable 1C3 non-profit corporation, with assistance from the Economic Development Administration, the Tennessee Valley Authority, the city of Chattanooga, and Hamilton County.

The mission of the corporation is to facilitate, develop, coordinate and to be a catalyst in the revitalization of the M. L. King Boulevard area and its environment, for the mutual benefit of the community, its running area, and the city of Chattanooga through economic and community developments.

The area is located east of downtown central business district, one block south of the University of Tennessee, Chattanooga, and is bordered on the south and east by 12th Street and Central Avenue respectively. The area is a 10-block long, 5-block wide, and is comprised of 50-square block commercial, residential and industry. Much of the industry is in need of repair, ranging from minor to demolition and reconstruction.

The per capita income for the area is $3,373, comparing to the county, $6,886. The unemployment within M. L. King Boulevard designated area is 16 percent plus, with the majority of those employed below the income poverty level.

Senator **Sasser**. The majority of those employed are below the income poverty level?

Mr. **Ramsey**. Yes.

Senator **Sasser**. Thank you

MILLIONS SPENT ON ESTABLISHED GOALS

Mr. **Ramsey**. Through the efforts of several conferences and meetings of professional and public officials, members of the community, the needs and problems were identified, goals were established to bring this area up to standard, established by the city of Chattanooga.

Over the last 5 years, several millions of dollars has been provided by the Economic Development Administration, the Tennessee Valley Authority, the city of Chattanooga through the U.S. Department of Housing and Urban Development block grant and Hamilton County, which has resulted in infrastructure and cosmetic improvement, housing rehabilitation, commercial improvement, the development of a two point million dollar energy institute, the renovation of a 16,400 square foot office complex.

The following example indicates how these Federal funds, the private sector and other economic assistance programs have been of service to this local community.

I would like to indicate in the area of infrastructure through the Housing and Urban Development block grant, roughly 5 years ago, there was a tremendous problem. If it would rain from 20 to 30 minutes consistently, the areas of M.L. King, 10th Street and 11th Street would just flood. Thousands and thousands of inventory would be wiped out. As a result of the community development block grant, this problem has been corrected.

Installation of street lights has been installed. The area used to be a high crime area. This is not in existence any more. Crime has been tremendously reduced.

The total cost over the 5-year period in reference of the funds that HUD has provided has been $2,384,000. The total number of jobs created, these were temporary jobs, but it was a total of 150 jobs.

Through the Economic Development Administration and the Tennessee Valley Authority, the financial assistance that we have received from them, the following project was established, a $2.2 million energy institute was developed. This energy institute is one of the prime economic generators that this community has needed in order to get the ball running in the right direction.

The development of a laundromat, we found out through a market survey that the elderly population was 53 percent of this designated area, and the majority did not have washers and dryers. Through the assist--through the Tennessee Valley Authority, we were lucky to come up with a laundromat within the area.

The renovation of a 16,400 square foot building into a multipurpose community center and office facility—my office is located in this facility—culture museum that would preserve the history of the area, a day care center and a public assembly hall that can accommodate community activities. Adding the Federal funds from EDA and TVA, a total of $3,200,000 locally.

Now, this is the money that the development district came up with, $1,399,000 for a total of $4,399,200. Total number of jobs created during this period, 165 construction jobs.

Private investment within the M.L. King area, such as the Church's Fried Chicken located, Red Wing Extermination Co. renovation, the Whole Note Restaurant, Lamar's Hotel, and several other commercial entities. Private investment in these areas of $1,434,000. Total number of jobs created, 76 jobs.

Over the last 5-year period, the total combined Federal, State, local, and private funds is $8,217,200, with a total combined number of jobs of 391.

STORE FRONT RENOVATION PROGRAM BEGUN

Presently, the East Ninth Street Development Corp. has begun working on the three-phase, 3-year store front renovation program for the M.L. King commercial district. This distressed area predominant minority district was declared a national historical district April 17, 1983, by the U.S. Department of Interior. There are presently 66 buildings within this historical district, with 23 of them being on the National Register of Historic Places.

In the last 4 years, the merchants within the M.L. King commercial area has been faced with the difficult struggle in light of the previous cuts. The effects of the cuts are evidently bankruptcies, foreclosure and major reduction in service and operation. Further evidence of decline becomes apparent by tour of the area.

Over the next 3 program years, the East Ninth Street Community Development Corp. will be seeking financial support and technical assistance from various resources. Its housing program for the M.L. King area is very, very bad. There is a tremendous need for substantial rehabilitation and new construction of housing within this target area. Presently there are 942 units with 422 of these in need of substantial repair, and 114 beyond replacement costs. This is a very sad situation, because 53 percent of the area of total population are elderly, and 21.7 percent are under the age of 20.

If there are substantial cuts, the Federal agency, as they relate to economic and community development such as the Tennessee Valley Authority, the Economic Development Administration, the U.S. Department of Housing and Urban Development Community Development block grant fund, the rehabilitation of the area served by the East Ninth Street Community Development Corp. has no future, because the burden would be too much of the public and private sector to carry.

The area proximity to the central business district and to the University of Tennessee, Chattanooga, warrants the continued and aggressive development of the M.L. King Boulevard area. Furthermore, the merchants in the area provide many basic and vital services to the community and to the city of Chattanooga.

Lately, and perhaps most importantly, the continued support of the development of this area ensures the type of community our young people will be in the future into the kind of adults whose contribution to this community and the Nation are immeasurable. Thank you.

Senator SASSER. Well, thank you very much.

Mr. Straub, I want to recapitulate here for just a moment, if I could.

UDAG PROGRAM PUTS $72 MILLION IN TENNESSEE

Now, you are telling us that the Urban Development Action Grant Program has put 72 million dollars' worth of Federal money into the State of Tennessee over the past, oh, how many years?

Mr. STRAUB. About 7 years.

Senator SASSER. Seven years. We have put 72 million dollars' worth of Federal funds here, and that has been able to leverage $460 million in private funds. It also has leveraged some additional public funds coming from city and county governments for a total investment of $587 million in Tennessee in job and community development over a period of 7 years, well over a half a billion dollars which has created 9,400 permanent jobs in the State of Tennessee, and has caused over $5,600,000 in tax revenues to flow into city and county governments. That is a fair statement?

Mr. STRAUB. That is right, it is.

Senator SASSER. And the urban development action grants have been particularly helpful here in the city of Chattanooga.

Mr. STRAUB. Right.

Senator SASSER. And we have utilized those to help construct the TVA building here, the convention center, and many, many other installations.

Mr. STRAUB. Right.

Senator SASSER. Mr. Ramsey, will you tell this committee to what extent the loss of this UDAG Program that Mr. Straub has described and a significant cut in community development block grant funds, how this would impact on projects that are currently underway in your area?

Now, you tell us that the unemployment in your area is 16 percent plus, that half of the people who are working there are—did you use the term, the figure half of that are working are still making an income of less than the poverty—official poverty level, is that correct?

Mr. RAMSEY. Yes, sir.

MAGNITUDE OF IMPACT UNDESCRIBABLE

Senator SASSER. Tell us what happens in your area if the UDAG Program is zeroed out and the Community Development Block Grant Program is significantly cut, how does that impact on you?

Mr. RAMSEY. Senator, as I indicated earlier, the corporation's beginning store front renovation program, which would be actually assisted from the U.S. Department of Housing and Urban Development. What we are trying to do, we are trying to get a lot of business to relocate back into the M.L. King area. We want to bring these vacant—buildings that are vacant—we want to get those buildings back on the tax roll.

In reference to the urban development action grant, we would like to, within the future, to be applying for an urban development action grant through the city in order to create other development projects.

I have always indicated, and it has been my word, we have an area that is located near a higher institution of learning, which is the University of Tennessee here at Chattanooga, it is very, very important, because of the geographic proximity, that this area be redeveloped, and we hope and I pray that the U.S. Department of Housing and Urban Development, EDA and TVA can be around so this can become a reality.

I cannot really describe the magnitude except saying that if HUD is cut off, EDA is abolished, and TVA community development division, we have no future. That is as plain as I can put it, sir.

Senator SASSER. Would you have to cancel your store front development project?

Mr. RAMSEY. Yes, we would.

Senator SASSER. All right.

Gentlemen, thank you very much for appearing here today and giving us the list of accomplishments of the Department of Housing and Urban Development and giving us some peep in the future if the President's budget is adopted. And we thank you, Mr. Ramsey, for coming here and giving us the benefit of your views and giving us a bird's eye view of your problems and how these cuts would impact on you.

Thank you very much.

Mr. RAMSEY. Thank you, sir.

Senator SASSER. We are honored to have with us today the distinguished Congressperson from the Third Congressional District, Congresswoman Marilyn Lloyd.

We would like now for her to come forward and hear from her on this subject we have under discussion, or any other subject she would wish to address today.

Welcome, Congresswoman. We are delighted to see you and have you here today.

STATEMENT OF HON. MARILYN LLOYD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Ms. LLOYD. Thank you very much, Senator.

I would like to begin my remarks by saying it is an honor to have you here in Chattanooga today in the Third District of Tennessee to hold your hearings relative to the impact of the proposed 1986 budget cuts, which the President submitted to Congress on February 4.

And I think it is also a privilege to get to testify before you today to address the aspects of this administration's budget and the negative impact that certain proposals contained in the President's budget will have on this area.

I am sure that you share, as I do, Senator, the administration's desire to reduce the huge deficit which looms ahead on the horizon, not only for fiscal year 1986, but for many years ahead as well.

I think the most important challenge to the U.S. economic policy in 1985 will be to reduce the budget deficit in a way that maintains the current economic expansion and preserves some of the fundamental improvements, especially for capital formation and the tax laws that were enacted in 1981. A failure to enact legislation that reduces further deficits would result in the accumulation of more than $1,000 billion of national debt over the next half decade, a substantial reduction in capital formation or business expansion and also, disastrously, a continued inflow of capital from abroad.

With this said, I would hasten to suggest that the administration and the Congress should approach deficit reduction from the point of view that was offered by Dr. Martin Feldstein, who is former Chairman of the President's Council of Economic Advisors, namely, to maintain the current economic expansion, the reduction of future deficits should be gradual, and this should be reliable, because a sudden sharp cut of the deficit would be contractionary and it really could precipitate a real economic downturn.

CUTTING PROGRAMS WOULD BURDEN GOVERNING BODIES

So often, Senator, we have heard from the present administration relative to Federal programs that the Federal Government should be a help to local and State governing bodies rather than being a hindrance. Well, in my opinion, in the area of economic development, the proposals to eliminate the Appalachian Regional Commission, the Economic Development Administration, the sharp reductions in Farmers Home Administration and Housing and Urban Development, as well as the proposed reduction of $100 million in the Tennessee Valley Authority's nonpower program, would work an undue burden on this area especially and, therefore, really more of a hindrance to our local government than people that they serve to help.

The Tennessee Valley, of which the Third Congressional District is a part, already lags behind the national average in virtually every national assessment, whether it be business or industrial development, per pupil expenditure for education, wages or salaries, housing starts or expenditures for roads and highway improvements. The programs that are targeted by the Office of Management and Budget in mention have already begun to make a difference throughout this valley.

Over the past 10 years, which you well know, but to give you an example of the positive impact of these agencies in the Chattanooga, Hamilton County alone, Chattanooga applied for and received $28 million UDAG, which you and I worked on, through the Department of Housing and Urban Development for a downtown redevelopment project. Now, this UDAG grant resulted in a total of Federal and private Chattanooga investment of more than $293 million; $28 million Federal money resulted in $293 million private sector dollars, Senator. And these agencies and programs help local units of government and community groups by providing the seed money for projects which do produce jobs and revenues both to the local and to the State governments, as well as return this money to the Federal Treasury.

As you well know, there is an average for every $1 of Federal support under the UDAG Program, $14 worth of private sector money. So it really does not make sense, Senator, and it is my estimation as being penny wise and pound foolish for OMB to promote the elimination of programs which, over the long run, either return directly or provide through creating an atmosphere for investment and economic expansion, thus more jobs and more money to the Federal Treasury than these programs actually cost.

Under the administration's proposal relative to the Tennessee Valley Authority, such programs—and this is just in the Third District of Tennesee alone—1,300 garden demonstration programs across the third district would be eliminated. These are programs that are very relatively low cost that provide seed and fertilizer to low-income families in the rural section. It is a big return on the dollar.

Under the Resource Management Program, 23 targeted farms would lose their technical assistance.

The Chattanooga Creek Toxic Pollution Cleanup Program support from TVA would also be eliminated.

For Grundy County $250,000, which we need so badly, under TVA's special opportunities, counties and cities, this program would be completely zeroed.

Programs that are headquartered in Norris, TN, which you have seen, such as the forestry and the wildlife, the recreation and the cultural resources, would lose $6 million, and Chattanooga State would lose its TVA support for its robotics program which we are so very proud of.

Well, this list could go on and on but, simply put, Senator Sasser, TVA is trying to improve economic conditions of this valley, as well as providing opportunities to local units of government and community groups which they could not afford to do on their own.

REDUCING DEFICIT WILL REQUIRE SACRIFICE

Now, reducing our deficit is going to require sacrifice, it is going to require sacrifice by all of us, but we must be equitable and compassionate, for this is our American way. This is not a time that we can see easy answers and simple solutions. We cannot say that we are going to cut supplemental security income and the Medicaid Program, as OMB Director David Stockman has said, just because it is an easy area for trimming. These payments go to the aged and the blind and disabled, and for this group, Senator, there are very few champions except for America's basic moral imperative, which simply put is that Americans help other Americans when they are in need, when they are less fortunate than themselves.

Any Federal budget that cuts or freezes domestic programs but does not cut or freeze defense spending is going to have a tough time in the House, and I am sure it is going to have a tough time on your side of the aisle as well.

If there are going to be cuts in the domestic spending, and there certainly will be, then everything is going to have to be on the table, and that includes our defense spending as well.

Domestic spending cuts, when you really look at it, Senator, cannot be cut enough to have any real effect on the budget deficits where it is submitted to exceed $200 billion for each of the next several years. For example, spending for our discretionary domestic programs, which includes the agencies we have already mentioned as targets for elimination, along with TVA's nonpower program, appropriate cuts of 100 million only amounts to a total of $168 billion in all of the programs. Thus, if you had completely eliminated all of our domestic discretionary programs without including the military programs, it would not yield enough to even wipe out the projected fiscal year 1986 deficit.

We thank you for being here today and for chairing these hearings. And I think that together that we can be committed to economic justice. I think that we can be committed to a strong, safe and secure America, and I think by working together with the House and the Senate and the administration that we can assure America as being a nation of economic growth and productivity and hope.

But together we have to be ever vigilant to a creed of equity and compassion for this is our great American way.

And we thank you very much for being here.

Senator **Sasser**. Thank you very much, Congresswoman Lloyd, for appearing here this morning and making that very eloquent and, I might say, comprehensive statement.

I know during the years that you and I have worked together in the Congress how concerned you have been about the economic development of Chattanooga and Hamilton County and adjacent areas, and we have seen a city and county and region here which had been a great industrial center in decades past, entering into a period of economic decline and a loss of jobs. And we have seen it now start to come back.

MOMENTUM MUST NOT BE LOST

Ms. LLOYD. We are right on the verge of the great coming awakening that we have all been working toward, and this would be a disastrous time to lose what we have put into this area.

The river port development that we are looking forward to would be a target ARC and EDA funding. We cannot afford to lose this, and we cannot afford to lose the momentum because we are going to have to continue to work for a great economic development in this area.

Senator SASSER. And I know how hard you have worked and fought to see that this area has gotten its fair share and, as a matter of fact, you have been successful in seeing it gets more than its fair share, I might say.

Ms. LLOYD. I think we have had over $360 million of Federal funds in Hamilton County in recent years.

Senator SASSER. The largest UDAG in the country was here in Chattanooga, may still be the largest in history. I do not know. But at the time it was awarded in 1979, it was the largest UDAG grant up until that time in the history of the program.

Ms. LLOYD. I think this third district has received more HUD development funds than any district in the State of Tennessee. We are very proud of that, and I have certainly enjoyed working with you, Senator, and look forward to continuing to work for the development of this area.

Senator SASSER. Thank you. And I want to compliment you on the fine work that you have done, and I might say--it came out in the testimony here this morning from one of the development officials--that the Komatsu heavy equipment plant, which this community has been looking forward to getting, and which I know you played a leading role in encouraging them to come into this region, that this plant acquisition may be cast in doubt now if we cannot go forward and get a UDAG grant to prepare the necessary grounds for its arrival. And if this UDAG Program is wiped out, we may be putting Komatsu in jeopardy from what I am hearing this morning.

Ms. LLOYD. I think you and I will both be working to preserve the UDAG Program so Komatsu can be a part of this community.

Senator SASSER. Good. Thank you very much. Thank you for coming.

All right. Our next panel is going to be a panel of two, the Honorable Doug Fitzgerald, the county executive of Marion County. Mr. Fitzgerald has been county executive of Marion County since 1982.

Prior to that, he served as finance officer for the county court for 10 years.

He will be joined by the Honorable Danny Wallace, the mayor of Dunlap, TN.

And Mr. Wallace has been the mayor of Dunlap since 1981, and is in private business.

Mayor Wallace has also served on the industrial bond board in Dunlap.

Gentlemen, please come forward. We welcome you here today and are delighted to hear from you both.

And why do we not begin with Mayor Wallace.

And I am advised here that time is growing short, and if you could summarize your statements as much as possible, we will greatly appreciate it. Thank you.

STATEMENT OF HON. DANNY WALLACE, MAYOR, DUNLAP, TN

Mayor **Wallace**. OK. Thank you, Senator Sasser. We appreciate the opportunity to be here today and talk to you a little bit about EDA and ARC.

I think I was chosen to be here today because I represent small city government, and Dunlap is no different than any other small city across the country, I am sure.

Dunlap has a population of 3,700, and while we have a small city, we are experiencing and have been experiencing for a long time rapidgrowth in population.

Senator **Sasser**. Pull that mike a little closer, Mayor.

Mayor **Wallace**. From 1970 to 1980, we had a 100 percent increase in population. Since 1980, we have had a 20 percent increase. While this increase is very good for small business in the community, it does create a lot of problems for city government in trying to provide basic services.

Some of these services, I think we probably need to create two different categories. Some of the services we can take care of on a local level, and we have very little problem with that. But the second group of services are things that we simply do not have the professional staff to take care of. We do not have full-time planners, engineers, auditors, attorneys and all on our payroll. Therefore we have to look somewhere for this technical assistance.

SOUTHEAST TENNESSEE DEVELOPMENT DISTRICT HELPS VERY MUCH

And even though we have been, we have not received any money from EDA and very little from ARC in the past in direct funds, we are receiving a very large amount of help from the Southeast Tennessee Development District. As you know, they are funded partially by EDA and ARC.

I would like to read to you just a few projects that we have been able to do by working with Southeast Tennessee Development District. We have been able to compete successfully for a community development block grant for a water system. This is a 500,000 gallon water storage tank. We have arranged public financing for a quarter million dollar manufacturing expansion, which created 80 new jobs, and while 80 jobs may not be much in a city the size of Chattanooga, it is a large percentage of our total labor force in a small city like Dunlap.

And we have others here that I will not bother to read because of time, but I think it is imperative, it is imperative that we continue to have the support of ARC and EDA in order to continue our struggle in small cities to keep our people at work. Thank you very much.

Senator **Sasser**. Thank you very much, Mayor. We appreciate your appearing here this morning and giving us the views of a mayor of a small city.

Here now is Mr. Fitzgerald, county executive of Marion County.

I might say, Mr. Fitzgerald, I enjoyed visiting your county just 2 or 3 weeks ago and seeing some of the fine industrial development you have going there.

STATEMENT OF HON. DOUG FITZGERALD, COUNTY EXECUTIVE, MARION COUNTY, TN

Mr. FITZGERALD. We thank you, and we appreciate your taking time to come visit our county. And I would be remiss if I had not mentioned your staff again, that we appreciated them and the fine job they do for our constituents.

I have been asked to make a few remarks about the ARC and EDA, and while I am most familiar with Marion County, of course, we are one of the counties that comprise the 10 counties of the Southeast Tennessee Development District.

I believe that the responsibility of government, whether it be local, State or Federal, grows beyond providing the traditional services, such as law enforcement and education. It involves a concern for the economic well-being of those whom we represent.

A big part of enjoying the freedom of our Nation resides in being gainfully employed, having a meaningful job and being adequately compensated. As a local elected official, I am concerned about all the residents of Marion County, but I have a special feel and special concern for those who want to find work and cannot.

CHALLENGES CANNOT BE MET ALONE

There are many reasons why ARC and EDA has been and still is important. The challenges of providing employment opportunities are enormous. As hard as we may try, local governments cannot confront these challenges alone, particularly an economically depressed area such as Marion County.

Now, I believe that the original architects and supporters of ARC and EDA and the Congress and the White House recognize that there had to be a special effort to overcome special problems in their regions.

I am here to tell you that not only was their intent appropriate, but also these programs that we call the Appalachian Regional Commission, the Economic Development Administration are working, progress has been made, and briefly I will give you just three examples.

Before I give you the examples from Marion County, I would like to mention the Hiwassee Regional Water System. This massive utility project has increased the industrial, commercial and residential growth in Bradley and McMinn Counties. The total amount of ARC dollars that have gone into Marion County for economic development projects is approximately $2.5 million.

Now, it is not just the dollar amount that is impressive here, but rather it is the jobs that those dollars have made possible. For example, last fall, Tennol Energy, Inc., broke ground on an $85 million fuel ethanol plant in the city of Jasper and Marion County, which you were privileged to visit less than 1 month ago.

This project means over 300 construction jobs and 100 plus permanent jobs. Tennol would be a major user of the Jasper sewer plant. ARC helped fund the Jasper sewer system, and if Jasper did not have a sewer system today, Marion County and Jasper would not have the Tennol plant.

Another project I would like to tell you about is the reported Nickajack and industrial complex which we feel is one of the best industrial sites in southeastern Tennessee.

Now, we have had enormous help from many people on this job, particularly TVA and the ARC, but we have in place a river port that is ready to take advantage of whatever may come because of the Tennessee-Tombigbee Waterway. We have a barge facility in place. We have a close proximity to a mainline railroad, and also the Interstate 24.

Nickajack features a transformation network that we believe is second to none. ARC has played a major role in helping get utilities to the site, and we currently have an application pending with EDA for a rail spur to the mainline dock face.

I think it is important to point out that local effort and local money has gone into the project that I have just mentioned.

You know, Senator, we are traditionally a hardworking people down here, an independent people in our county, and we are not looking to or expecting the Federal Government to do all of it for us, but we do need help, especially on those projects that have a regional impact.

Now, we are well aware that many problems remain as we face the difficulties of huge deficits and competing usages of limited resources. Let us not forget that there are many economically disenfranchised people in our counties, and that most of the poor or disproportionately located in the depressed regions of Appalachia, whether it be in the cities or in the rural areas, these problems will continue to require special attention and the combined efforts of all levels of government.

Thanks to the ARC and the EDA for helping local and State governments meet the challenges of improving its economic condition, hopefully these friends will continue to be on our side.

TWO OTHER SOURCES OF GREAT BENEFIT

Before I close, I would feel I must mention two other sources of Federal assistance that have been of great benefit to us in terms of funding infrastructure and community livability projects. The Community Development Block Grant Program has been of enormous help in the area of economic and community development. The Tennessee Valley Authority has been an invaluable partner with State and local government.

I might digress to say here that we were one of the counties that had a TVA appreciation day to honor their 50th birthday and grateful for what all they had done for us in the past.

Again, Senator, I am grateful for the invitation, the opportunity to appear before you this morning.

Thank you.

Senator SASSER. Thank you very much, Judge Fitzgerald. We are glad to have you here.

We have been joined by the Honorable John Franklin, vice mayor of the city of Chattanooga, and we understand you have been busy this morning and had to be at a council meeting mayor, but we are delighted to have you here and we would like to get your views here this morning.

I understand you are appearing not only for yourself but also for the mayor, the Honorable Gene Roberts.

We, as you know, were to have these hearings yesterday. It became necessary that we postpone them as a result of a death in Nashville and, for that reason, Mayor Roberts would be unable to join us today. But we are delighted to have you appearing here in your own stead, and also for him. So, welcome, Mayor Franklin. We look forward to hearing from you.

STATEMENT OF HON. JOHN FRANKLIN, VICE MAYOR, CHATTANOOGA, TN

Mr. **Franklin**. Thank you very much, Senator Sasser, honorable committeemen.

I would like to personally welcome you to Chattanooga and express appreciation for the privilege of speaking to you on the administration's proposed budget for 1986.

I would not presume that you would hear concerns any different from what you have already heard in previous hearings for undoubtedly the impact of budget cuts is fairly universal throughout our cities.

As president of the Tennessee Municipal League, I should like to make general comments in regard to concerns of all of Tennessee's cities, and then a bit more specifically to address concerns of the city of Chattanooga in behalf of Mayor Roberts who sends his greetings to you and sincere regrets that circumstances prevented his addressing you as the result of your having to postpone the hearing from yesterday at which time he could have been present.

MUNICIPAL GRANT ASSISTANCE PROGRAMS WOULD BE ELIMINATED

The proposed cuts will almost certainly eliminate or phase out almost all municipal grant assistance programs in fiscal year 1986. Unfortunately, there seems to be a redefinition of Federal responsibilities for most domestic programs to imply that they are unnecessary Federal subsidies. $20 billion, over half of the domestic cuts totaling some $36 billion are requested in the State and local sectors.

Of the projected $238.6 billion in budget cuts from fiscal year 1986–fiscal year 1988, more than $135 billion would come from programs which directly affect State and local governments. By 1988, the only programs left would be transit capital, highway assistance, and a much smaller Community Development Block Grant Program.

At the same time, the budget would increase Federal spending in fiscal year 1986 1½ percent, largely due to the projected increase in defense spending.

Now, let me say at this point personally I believe we must maintain a strong defense which means offensive capabilities. My coach used to say that the best defense is a strong offense. It is perceived by some that perhaps more strategic preparation would suffice as opposed to building up scores of nuclear weaponry when substantially fewer could make the point of the capability of wiping an adversary from the face of the Earth, should it come to that. Also, objectively speaking, we are all quite aware of the $200-plus-billion deficit that seems to increase every year, and concur that measures need to be taken toward its reduction.

ACROSS-THE-BOARD SPENDING FREEZE FAVORED

As the Congress applies its judgment of the facts and common sensical approaches, it is TML's opinion that a better budget alternative would be an across-the-board spending freeze which would reduce the budget by $70 billion and would be politically acceptable to almost everyone.

One, approximately $135 billion, 61 percent, of the deficit has resulted from the administration's ill-advised tax cuts in 1981, and while the administration has done an excellent job in bringing interest rates down and getting inflation under control, the tax cuts were indeed catastrophic. Without them, we might have been facing a much more manageable $87 billion deficit at this time.

Two, it is our belief that cities have paid their fair share, having cut our programs by about 25 percent since 1981. Considering the projected $20 billion in cuts to State and local programs, and adding in the 70 percent proposed cuts in the TVA budget, we indeed have a situation where local governments in the Southeastern States are really bearing a disproportionate share of the burden.

Three, it is, in our judgment, impossible to balance the budget through cuts in nondefense spending so, without avoiding the overall increase in spending from an overall standpoint, it is mathematically impossible to hold the line on taxes and to do anything at all about the deficit; and in light of the this fact, the proposed cuts in local government programs are meaningless.

Four, in some quarters, it is believed that the President does not expect the Congress to approve this budget, but that it places the burden of the cuts upon the Congress so that it will, in turn, be blamed for preventing the President from reducing the deficit. So the matter of political posturing must be combatted by the Congress.

The three largest Federal grant programs for local governments—General Revenue Sharing, Community Development Block Grants, and 201 Wastewater Facility Grants—together total $10.5 billion, about 25 percent of the targeted reduction for 1986. If they are eliminated, it would mean that cities and counties have paid the highest price for deficit reduction of any sector of the national economy, and that the Federal-local relationship which has been the primary feature of intergovernment relations over the past 25 years has ended for all practical purposes. It probably also would mean a great deal more pressure on State governments to close the local revenue gap, and certainly a great deal more pressure on the property tax, which is the only flexible tax source that local governments have.

FATE OF CITIES REST WITH CONGRESS

So, then, the fate of cities rests with the abilities of the Congress to derive a more equitable deficit reduction plan. We would beseech you to consider the following:

One, Federal policies are closing off our taxing options.

The administration has already shifted the burden away from progressive Federal taxes and onto regressive State and local sales and property taxes.

Elimination of the deductibility of State and local taxes from the Federal income tax would make it much more difficult to raise local taxes.

The administration, over the past 4 years, raised Federal excise taxes on gasoline, distilled spirits, and telephones, making it much more difficult for States and local governments to derive revenues from those sources.

Two, Federal policies are making it harder and costlier for us to borrow the funds we need.

As Federal borrowing increases because of deficit, municipal bonds tend to get "crowded out" of the market. Municipal bonds are now having to compete with U.S. bonds and treasury notes in the marketplace. Federal Government will pay whatever interest note is required to raise the money it needs—this forces higher interest rates on municipal bonds too.

Several years ago, interest on municipal bonds became taxable for persons on Social Security whose income exceeds a specific level. This made municipal bonds less desirable.

As a deficit reducing measure, Congress acted last year to increase the interest disallowance on municipal bonds held by financial institutions. This made municipal bonds less desirable.

As a deficit reducing measure, Congress acted last year to severely limit the purposes and amounts of tax-free borrowing by local governments. All States are now under a "cap," and many public purpose issues, such as pollution control, energy and solid waste, and water supply and distribution facilities are under the cap.

Three, Federal policies are forcing increased expenditures on municipal governments.

Cuts in such areas as AFDC and mass transit operating assistance will inevitably result in budgetary pressures and higher taxes at the State and local levels. Reductions in Federal Medicaid supplements to States will be a substantial new burden because recipients will exhaust their benefits more quickly and be transferred to city and county hospitals, or be reclassified as charity cases at private hospitals. Costs of care will thus be shifted to the local level.

Four, Federal policies are making it harder for cities to get State aid.

Cuts in Medicaid supplements and other areas will have a very adverse impact on State budgets. As financial pressures on State governments increase, it will become more difficult for cities to secure additional or new State shared assistance at past levels.

LESS VISIBLE POLICIES HAVE GREATER IMPACT

The proposed budget cuts are bad enough, but these other less visible policies could have an even greater impact on the future of municipal governments.

Local situation—community development block grants: More than $47 million in grants during the past 10 program years has been received in Chattanooga. This total reflects 10 annual entitlement amounts and the special jobs bill community development funding last year.

Fifty-eight percent of these funds have been expended for projects which have provided needed improvements in selected low and moderate neighborhoods. The projects have included street improvements, the addition of new sidewalks, curb and gutter and handicapped ramps.

Eleven percent of these funds have been utilized to provide housing rehabilitation financial assistance for more than 900 units. More than 800 of these units have been owner occupied units owned by low income elderly and handicapped persons. The funds are paid to contractors who correct deficiencies related to health and safety.

The balance of these funds have been expended for four major collector sewer projects, to construct four new fire stations and the fire training facility and to make improvements in 17 separate recreation and park sites. In addition, the new senior center in the Golden Gateway and the Carver Multipurpose Center in Orchard Knob were financed with CDBG funds.

The city of Chattanooga expects to receive approximately $2.7 million in community development funds for the 11th program year, which will begin on July 1, 1985. In 1975 and 1976, the city received $6,526,000 each year. This annual entitlement has steadily decreased in the years since 1976. These community development funds do not replace locally available funds. Therefore, the loss of this source of funds would mean that similar projects would not be accomplished given the city's existing budgetary constraints and the existing tax rates.

FUNDS PROVIDE NEEDED EMPLOYMENT

Of course, the vast majority of these funds result in construction projects which help to provide needed employment for many of our citizens.

Urban development action grants: Chattanooga has been fortunate to receive $21,026,548 for assistance to seven different UDAG projects which has spurred the expenditure by the private sector of more than $250 million. This is a leverage ratio of nearly $12 of private investment for each $1 of UDAG funds. The projects include the South Central Business District Improvement Program, which includes the massive TVA office complex and the 1,200 car public garage, along with major infrastructure and street system improvements around this area; the renovation of the Fort Wood Apartments, the development of the 650-space private parking garage behind the Bicentennial Library and the Pedway connection to the new Tallan Building; the development of the new convention and trade center and the adjacent hotel; the construction of the

115-unit Royal Arms Apartments; the renovation of the historic Old Southern Depot as Freight Depot Marketplace—a development which will include a major new restaurant, six fast food restaurants and 20 retail shops; and the renovation of nine warehouses facing Market Street as a new downtown mall, including office, food service and retail.

Together, these projects will provide more than 3,000 construction jobs and will generate more than 1,000 new permanent jobs for our citizens.

This highly efficient Federal program should be continued. We believe that prospects for additional projects to be funded with UDAG funds are favorable. These would continue to generate new jobs, expand the local tax base and provide the incentive for additional private investments in Chattanooga.

Economic Development Administration Assistance: Chattanooga received an EDA public works grant in 1978 of $1.1 million to assist in the development of Market Center—improvements between M.L. King and Sixth on Market Street. These funds were matched with more than $800,000 of local and private funds to complete this major project involving new street development, landscaping, fountains, and pedestrian lighting.

Other recent uses have included assistance in the development of the TVA Energy Training Institute and the Old Boys Club renovation on Martin Luther King Boulevard, and an ongoing planning grant to the city.

The city has recently applied for EDA assistance for the eastern metro project. $480,000 of EDA funding is pending. This amount is being matched by $120,000 of city funds and bonds by eastern metro of $1.3 million.

REMOVAL OF REVENUE SHARING WILL POSE SERIOUS PROBLEM

In terms of education, the removal of revenue sharing will pose a serious problem in Chattanooga. The original intent was to provide local government the opportunity to receive Federal tax dollars paid by local individuals back into the local community, giving them the opportunity to determine how the money will be spent.

The city of Chattanooga made a determination to spend such fund almost solely for education in excess of $2 million. If it becomes necessary to replace these funds, it will require a 23.3-percent increase in property tax. As the result of Federal legislation, some assistance is required to maintain accessible facilities and educational programs for reasonably and moderately handicapped students. Without these funds, local school systems will be caught between a "rock and a hard place."

Where minorities are concerned, numerous opportunities, which presently exist, will be eliminated. The removal of SBA funding will reduce the ability of small businesses to borrow for starter costs or for expansion. It should be noted that the smaller businesses create more jobs than larger ones. By eliminating this source of capital, small businesses will not be able to receive the capital from traditional financial institutions to expand their ability to groom new markets and employ new persons. One specific program is the minority venture capital program that has been so important in addressing the unemployment problem in our Nation among minorities and many of these programs have encouraged the involvement of the private sector and the implementation of the self-help concept. This is undoubtedly a very significant approach to resolving the employment situation. Without venture capital, mesbics, et cetera, the effort here will be totally "wiped out."

So this, gentlemen, in a nutshell, represents the concerns we have for industries throughout the State of Tennessee and for Chattanooga in particular, and again I recognize that this is perhaps nothing new, but simply hopefully a somewhat of a preponderance of the evidence in support of a more equitable adjustment of the budget cuts so they would impact us negatively as possible on our local economy.

Senator SASSER. Thank you very much, Mayor Franklin.

I forgot to mention that Vice Mayor Franklin is appearing here today also on behalf of the Tennessee Municipal League. My mistake. And we very much appreciate your testimony and bringing the views not only of the city of Chattanooga but the Tennessee Municipal League to us.

Our time is very short, and I want to ask two very, very brief questions, first of you, Mayor Franklin.

The Corridor J project is intended to provide an important link to rural communities in this area in Tennessee.

Now, increased access and the accompanying economic development that this highway should bring to rural communities in Tennessee would make the project an important component of the long-range needs of this particular region.

Now, so far the Appalachian Regional Commission, as you know, has contributed $108 million toward the completion of this Corridor J project, but it is still $90 million short of completion.

CORRIDOR J VITAL LINK TO TOTAL ECONOMIC DEVELOPMENT

Now, if we wipe out the Appalachian Regional Commission this year, as the administration proposes, what will happen to this Corridor J and what impact will this have on the long-range needs of economic development of this region?

Mr. FRANKLIN. Well, I am sure you are aware, Senator, that the Appalachian Regional Commission has certainly contributed immeasurably to all of our areas in this region, and certainly that would be detrimental, I am sure, in large measure to the total economy of the entire region.

And I would certainly hope that somehow, as opposed to wiping out such appropriations, that we would find a way to reduce to some extent so as to accommodate some reductions in the budget sufficiently that we would be able to have an ongoing progress in this direction, without just terminating, competing perhaps in time just as resources may be found to continue to accelerate toward its completion.

But certainly it is a vital link in the total economic development of this entire region.

Senator SASSER. So your approach and that of the Tennessee Municipal League would be rather than just totally wipe out programs, and zero them out, you would scratch out project completion times, and approach the budget deficit from a point of view of not deleting whole programs, but putting a freeze in?

Mr. **Franklin**. Exactly.

Senator **Sasser**. Which I think you testified would save $70 billion, and also cutting the defense budget also to anticipate any cuts or freeze.

Mr. **Franklin**. That is precisely the point I would like to make.

Senator **Sasser**. So the Tennessee Municipal League agrees with my Republican colleague, Senator Mark Hatfield of Oregon, who said that Casper Weinberger and the defense budget should not be draft dodgers in the war against the Federal deficit, I gather.

Let me ask a question of our distinguished mayor and county judge here.

NOT IN POSITION TO PICK UP BILL

The programs that we—that you were talking about earlier that aided your areas, if these programs were terminated, would your city or county be in a position to pick up the bill for the continuation of the activities that are currently being funded by these programs, without raising taxes substantially, and is raising taxes, local taxes, really a feasible option for small cities and rural counties?

Mr. **Fitzgerald**. I can answer that one, my county directly and indirectly. No, sir, we cannot. And property tax in Marion County, we feel, is as high as it needs to go right now.

Senator **Sasser**. How about you, Mayor Wallace, what is your reaction to that?

Mayor **Wallace**. I feel the same way. We have taxes that are just as high as we can stand them at this time.

I would like to talk just a minute, if I could, about Corridor J Highway. That is Dunlap and Sequatchie Valley's best shot at industrial development. It will make us more accessible for industrial growth.

Senator **Sasser**. So if Corridor J is not completed, you think you will be suffering a substantial economic setback?

Mayor **Wallace**. That is right. We will be limited to what we can do industrially.

Senator **Sasser**. You could not raise that $90 million there locally?

Mayor **Wallace**. I sort of doubt it.

Senator **Sasser**. Well, mayors and judge, we thank you very much for appearing here this morning and giving us the benefit of your views.

We are going to hold the record open for how long? We are going to hold the record open until March 15 if anyone wishes to amplify on their remarks or wishes to submit some additional statements for the record.

In closing, I want to thank all of our participants here today for contributing to this hearing. I think the remarks have been very helpful, and will be made, as I said earlier, a permanent part of the congressional record and will be reviewed by the Senate Budget Committee.

I think this hearing has been helpful to me and I hope it will be helpful to my colleagues on the Senate Budget Committee in understanding just precisely what impact these proposed budget cuts will have here in the eastern part of Tennessee, and how these cuts will impact on our larger cities like Chattanooga, which has benefitted enormously from many of these economic development programs in recent years.

You have heard testimony that Chattanooga is on the verge of a great leap forward economically, and I certainly hope and trust that will be the case. And we have also heard how the cutting of these programs would impact most adversely on the rural communities adjacent to Chattanooga and Hamilton County. So you have done a great service by appearing here today, and I express my appreciation to all of our witnesses.

Thank you very much. The hearing is adjourned.

[Whereupon, the committee adjourned.]

IMPACT OF ECONOMIC AND COMMUNITY DEVELOPMENT BUDGET CUTS

FRIDAY, FEBRUARY 15, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Johnson City, TN.

The committee met at 3:15 p.m., in the municipal building, Johnson City, TN, Hon. James R. Sasser presiding.

Present: Senator Sasser.

Staff present: Lance Simmens, legislative assistant.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. The hearing will come to order. I will begin.

We are running a little bit late today. As some of you know, we came over from Chattanooga early this morning, and we still have a little snow on the road.

This is the third in a series of congressional hearings that are being held in the State of Tennessee under the auspices of the Budget Committee of the U.S. Senate to ascertain the impacts of the fiscal year 1986 budget proposals upon the economy of Tennessee.

The focus of this hearing will be the impact of proposed cutbacks in the economic development programs. Of particular interest to the upper east Tennessee portion of Tennessee, the administration's proposals to eliminate the Appalachian Regional Commission and the Economic Development Administration could have serious consequences for economic development and for progress in this area.

We want to hear today from our witnesses, their experiences with these various economic development programs flowing from the Federal level, and we will weigh their views and comments very heavily when the Senate Budget Committee convenes later this month to deliberate on the fiscal year 1986 budget.

SOME PROGRAMS TO BE ELIMINATED

Since 1981, the administration has repeatedly attempted to eliminate many community and economic development programs, and it comes as no surprise, given the large budget deficits this year, that 1986 is no exception. The budget that the President submitted to Congress 2 weeks ago, includes the following programs for elimination that might be of particular interest to Tennessee and specifically to upper east Tennessee:

First, the elimination of the Economic Development Administration and the rescission of some $179 million in funding authority from the current year's budget.

Second, the elimination of the Appalachian Regional Commission and total rescission of all uncommitted funds now being held by that agency.

Third, the elimination of the Tennessee Valley Authority's Regional Economic Community and Agriculture Development Program.

Fourth, the elimination of the Urban Development Action Grant Program.

Fifth, a 10-percent cut in the Community Development Block Grant Program.

The cuts, I think, signal a withdrawal on the part of the Federal Government from the role of economic development in many of the local areas in this country which are in need. To say, as the administration now seems to be saying, that Appalachia no longer needs special attention simply denies what I perceive to be the hard cold facts of this region.

UNEMPLOYMENT IN TENNESSEE ABOVE NATIONAL AVERAGE

For instance, while the national unemployment rate has been in the 7-percent range, we in Tennessee have consistently run unemployment rates of 2 to 3 percent above the national average. In some counties in upper east Tennessee, we see unemployment rates that hover constantly at up to two and three times the national unemployment average. Campbell County, over 18 percent unemployment, now stretching into years. Hancock County, unemployment of 19 percent. Scott County, unemployment of 15 percent. Cocke County, unemployment of 28 percent, and on and on.

Now, these statistics, however gloomy, I think merely reflect the tip of the iceberg. Many State and county and local leaders insist that these official unemployment numbers could easily be doubled when taking into account those who are simply too frustrated to seek work and who do not appear in the unemployment statistics.

It does not take into account those who are employed but in jobs of such low paying capability that they still earn below the poverty level. It does not take into consideration those who are seriously underemployed.

Well, from talking to many of our officials over the years and seeing with my own eyes, I have come to believe that Tennessee, particularly upper east Tennessee, has reaped economic benefits from the Appalachian Regional Commission's programs over the years. In Tennessee alone, the ARC has spent $504 million, almost half—well, over half a billion dollars. And these moneys have meant jobs, health care, and education for the people of this region.

It is no accident that upper east Tennessee has been one of the fastest growing regions in our State. Since 1969, ARC has contributed more than $897,000 to construction and improvements at the Tri-City Airport, one of the most attractive and lovely and utilitarian airports I think you can find in the country for a city the size of Tri-City.

ARC has contributed to making East Tennessee State University a leading educational institution in the region through grants of nearly $2.4 million.

I could go on and on with examples, but I think what is important here is the concept embedded in the Federal Government's commitment to economic development assistance for those regions that need it.

U.S. GOVERNMENT MUST WORK IN COOPERATION WITH STATE AND LOCAL GOVERNMENTS

I believe strongly the Federal Government must work in cooperation with State government, with local government, as well as to continue to leverage private capital for economic improvement.

Well, we all know that the current situation regarding the Federal Government demands that we in Congress look very carefully at all spending programs. They must be cost efficient. The fat must be cut out of them. We must get at least 100 cents back for every dollar of the taxpayer's dollar that we spend. We simply cannot blindly eliminate programs which encourage private development and which provide visions of hope to areas where the economic recovery has seemed to pass them by.

I look forward today hearing from our witnesses and trust that they will further enlighten us as regards what impact these budget cuts may have in their regions.

Our first panel consists of Mr. Raymond Huff. Mr. Huff is the distinguished mayor of Johnson City. He was elected by the city commission to become mayor in 1981 by unanimous vote. Prior to becoming mayor, Mr. Huff served on the city commission of Johnson City.

We also have with us today Mayor Ewell Easley, the mayor of Bristol. We are delighted to have him.

Also we have with us the city manager of Bristol, Tennessee, who I think will be introduced by Mayor Easley.

Mayor Huff, Mayor Easley, Mr. Moore, if you would come forward and sit there and testify, we would appreciate it.

Just have a seat.

The mayor of Sneedville, Charles Turner, was to appear today, but he is unable to do so because of the flu.

Gentlemen, if we can keep our sanity with that little buzz and whine in the background—I know it is sort of like the Chinese water treatment, maybe we will learn to ignore it in a moment.

Why do we not begin with you, Mayor Easley, and you may want to introduce your city manager and then we will turn to Mayor Huff.

STATEMENT OF HON. EWELL EASLEY, MAYOR, BRISTOL, TN, ACCOMPANIED BY TOM MOORE, CITY MANAGER

Mayor Easley. I will be glad to do so.

I appreciate this hearing. We are very concerned with the budget that has been presented, and not only ourselves as elected officials, but our citizens as well, not only the problems it creates in our city but our area. We would like that a formal statement be made by our city manager, Mr. Tom Moore.

Tom, will you take over?

Mr. **Moore**. Thank you, Mayor Easley.

The Reagan administration proposes severe and drastic cuts in Federal spending, coupled with Federal tax cuts which supposedly will encourage private investment——

Senator **Sasser**. Mr. Moore, would you yield for just a moment.

Can you hear Mr. Moore in the back of the room? We are going to have to do something about getting a microphone so these witnesses can be heard.

Mayor **Huff**. Those should be live.

Mayor **Easley**. This is like the Bristol, Tennessee City Chambers. We have mike trouble at home.

Senator **Sasser**. I think it is important that the witness be heard. Why do you not come up here, Mr. Moore. We will begin up here. When you have concluded, your place can be taken by the next witness.

Mr. **Moore**. OK.

The Reagan administration proposes severe and drastic cuts in Federal spending, coupled with Federal tax cuts which supposedly will encourage private investment and will result in new capital investment, industrial expansions, and consequently the creation of new jobs. This concept proposed by the administration refers back to the economic theory of an invisible hand operating to stabilize competing economic sources. From a national perspective, this concept may be appropriate. From a local and regional perspective, I have great concern in speculating on where the newly created jobs might be located.

THREE STAR PROGRAM

Tennessee Gov. Lamar Alexander has been pushing a Three Star Program which is designed to assist communities to attract new plants and industry, with the corresponding new jobs. The Tennessee Department of Economic and Community Development has the responsibility of implementing the Governor's Three Star Program, and we have heard over and over from the Department the fact that industry will go only to those communities where a support infrastructure is already placed. That is to say where industrial parks or sites are available and developed with water, sewers, gas, electricity, adequate access to transportation facilities, and all the remaining support activities required by business.

Locally and regionally, a major resource for local government to gain these improvements has been through such agencies as the Appalachian Regional Commission, the Economic Development Administration, and the Farmers Home Administration. Removing these resources, as the Reagan administration proposes to do, leaves our region and our local communities with a choice—either raise the funds necessary to provide for these infrastructure improvements from local sources, or do without the immediate improvements and trust in the Reagan concept that private enterprise will make a locational decision favorable to that community, even though adequate infrastructure improvements are not available.

Based on my knowledge of the taxing power of our local communities, especially the smaller and more rural ones, I am fearful that the decision of local government leaders will be to do nothing. Given alternatives such as these, it does not take too much imagination to understand that the hot spots of growth—Phoenix, Tucson, Albuquerque, San Diego, Denver, Silicon Valley, and so on, will continue their rapid expansion and will be the locations of most of the new jobs which might be created under the Reagan approach.

These cities have already crossed the development threshold wherein the profit motive of private investment is sufficient to fund the improvements necessary to provide for the high paying industries. Most of these hot spots have various locational and climatical amenities which tend to attract industrial and commercial operations.

But what are the smaller cities in rural areas, such as our own, where incomes tend to be lower, and where increased local taxes will place additional burdens on already strained budgets? Certainly the incremental tax savings per family which might result from cuts in the Federal budget will not offset the rise in the local tax burden, which will be necessary if smaller rural communities are to attempt to compete with the larger, more glamorous metropolitan areas. This action, or the lack of it, will directly result in the loss of job opportunities in our region, and the old nemesis of unemployment and outmigration in search of job opportunities will begin again.

It might be helpful to identify some projects funded in the last decade of our region utilizing the resources which have been available from the agencies I mentioned earlier. The most evident public facility in our region is the Tri-County Airport, owned by several of our local governments and operated quite successfully by the Tri-City Airport Commission. Over the years, the airport has received considerable support from the Appalachian Regional Commission and other government agencies for the construction of a general aviation hangar, a cargo mail facility, and numerous airport safety improvements in smaller projects. While it is difficult to answer, my question is would these improvements have taken place without the incentives of the fiscal support of the Federal Government?

TRI-CITY STATE TECHNICAL INSTITUTE

Another tremendously important regional activity is the Tri-City State Technical Institute. It has received approximately $1.6 million for such projects as classroom construction and equipment purchases. Discussions with the industrial recruitment experts in our region clearly indicate the importance of the Tri-City State Technical Institute through their efforts to attract new and progressive industries to our region.

There are a host of smaller projects throughout the local communities in the region which have enabled those communities to improve the infrastructure necessary for economic development. While we have come a tremendously long way in this area since the creation of the Appalachian Regional Commission, it is my opinion that we still have a long way to go. This is true particularly in the smaller and more rural areas of the region.

The Reagan administration presumes that the Community Development Block Grant Program can carry the load and is favorable in that it returns decisionmaking to the State and local levels of government. While this sounds good from a theoretical point of view, in fact it will benefit only those areas of the country which have strong and substantial local tax bases from which the money can be raised.

When regional disparities are considered, however, I am fearful that the changes proposed by the Reagan administration will only result in greater disparities from region to region, and will result in the young people of Appalachia and this region being forced to relocate outside the region in their efforts to obtain employment and a reasonable standard of living.

Senator SASSER. Thank you very much, Mr. Moore.

THE RICH GET RICHER AND THE POOR GET POORER

Judging from your prepared statement, would it be fair to say that you see the elimination of these programs as contributing to a sharper delineation between two classes of cities or counties, those which are the haves and the have nots?

The question I am posing is if these programs are done away with, these regional economic development programs or development programs targeted to some of the more economically distressed areas, we see a case developing where the rich get richer and the poor get poorer, is that a fair assessment?

Mr. MOORE. Yes, Senator, that is exactly what I am trying to say. The ARC and other programs have been extremely helpful to the Appalachian region in overcoming these disparities, but I think we still have work to do, and if we stop the programs now, we will have not achieved that threshold of development necessary for us to compete in the marketplace with the more attractive areas.

Senator SASSER. What would be the effect on job creation and job retention in your particular area if we did see a zeroing out of the ARC?

Mr. MOORE. Probably the most—I am sorry.

Senator SASSER. And elimination of economic development aspect of TVA's program, taken in conjunction with the abolition of the Urban Development Action Grant Program?

Mr. MOORE. In the Bristol area itself, we are experiencing a rather sizable problem with our sewer system.

Senator SASSER. How well I know.

Mr. MOORE. As I am sure everyone in the room is aware.

We also are having a problem of very limited area within the city for economic development. The only two that is available to us beyond simply further loading the ratepayers and the taxpayers is through programs such as are available presently under ARC, EDA, TVA, and so forth. So the impact on Bristol will be increases in the local tax burden and increases in the water and sewer rates which must be paid to achieve these activities.

Senator SASSER. If I am not mistaken, is there not a cap now on the type of industry or extent to which you can get new industry into Bristol, TN, as a result of limitations in water supply and sewage disposal?

Mr. **Moore**. Yes, sir, we are presently operating under a moratorium imposed by the commissioner of the Tennessee Department of Health Environment, which provides for only limited growth, pending resolution and improvement of the sewage collection and treatment system.

Senator **Sasser**. Well, if these economic development programs are to be eliminated, is it realistic to think that either the State government or the local government would be in a financial position to pick up and take off and finance these activities that are currently underway in the field of economic development?

Mr. **Moore**. Of course, I would have a hard time addressing the State, other than the experience with what the State has done in the past.

At the present, they do not have the ability nor the fiscal capacity to do so. Certainly at the local level, the city of Bristol is already strained to provide for the current need, much less the additional loads.

Senator **Sasser**. As you well know, one of the original reasons for being of many of these programs was to spread economic development across the country, as well as trying to uplift some of the more depressed regions economically in the country. Judging by the overall thrust of your testimony here, if the programs are terminated, then you see the shift going back to the richer areas of the country, once again attracting the lion's share of the economic development, and those of us who could be classified in the poorer areas would simply fall behind once again?

Mr. **Moore**. I believe that is a fact.

Senator **Sasser**. Mr. Moore, thank you very much for your appearance here today. If you wait, we might have some additional questions.

Mayor Huff, if you would be good enough to take the hot seat.

STATEMENT OF HON. RAYMOND HUFF, MAYOR, JOHNSON CITY, TN

Mayor **Huff**. I think the subject has been well covered by Mr. Moore as far as the entire area is concerned, Senator. I think maybe it might be well at this time for me to just cite some things that are of particular interest as far as Johnson City is concerned.

I have here in front of me the amount of money that the State of Tennessee has received or will receive this year from several different sources from the Federal Government. I notice general revenue sharing, $83 million; community development, block grants, $27.5 million; 201 wastewater facility grants, $33.5 million. And by the way that particular grant does not do us any good at all. We are having to—forced to take care of our own problems there. The Appalachian Regional Commission that Mr. Moore talked considerably about, $13.5 million. The Economic Development Administration grants, $3½ million, and urban development, $600,000, I believe it is.

Now, I do a good deal like Mr. Easley does. I depend a great deal on my city manager because this is his entire work all the time.

We discussed what we thought was most important as far as Johnson City was concerned, that in fact we are sorry for you, Senator. You have a problem on your hands. There is a debt there that something has got to be done about. There are great decisions that have to be made, and I know you are working hard to come up with the right answer that will be fair and that will take care of your people in Tennessee.

REVENUE SHARING MOST WANTED PROGRAM

Our primary concern of what would affect us here in Johnson City, our first and most wanted continuation of these programs is revenue sharing. We think that is a fair and actually the best program that the Federal Government has ever come up with as far as the cities and so on. And our second most like, as far as we are concerned, is the community development.

Now, this revenue sharing, if I might just point out exactly what it would mean to us here in Johnson City, our revenue sharing allocation for the Federal fiscal year, beginning October 1, 1985, is $949,430. If this revenue sharing were dropped from the Federal budget, and if the city commission chose to replace the dollars in the city's budget, the only way we can do it is by increasing the property tax. This would require an increase of approximately 33 cents on our present rate of $2.10. This is a 15.7 percent increase in our existing property tax rate.

An example, a person that owns a $50,000 home, the existing property tax is $262.50. If we increase it, it would go to $303.75. That is a $41.25 increase.

The thing that would hit us in Johnson City the quickest and the worst would be the elimination of revenue sharing.

Now, I have here before me some matters of interest as far as the ARC grants are concerned. They certainly have been a great help. I look down through here, East Tennessee State University, a number of times industrial park and water and sewer, roads, that is EDA, Mental Health Center, anything that is of benefit to Washington County is a benefit to Johnson City, of course. Actually, anything that is of benefit to the entire area we think is of benefit to Johnson City. It is just a real joy to have judges from surrounding counties here because what happens to one of us benefits or hurts each one of us.

We are vitally interested in all these programs but, at the same time, I think we can all agree we would like to see something done about that deficit, Senator.

I am going to cut my remarks today short unless you have a question that I might try to answer for you.

Senator SASSER. Mayor, I thank you for your appearance here today. I hear what you are saying about the general revenue sharing. As you will recall, we had some hearings over at East Tennessee State University last year.

Mayor HUFF. Sure did.

Senator SASSER. On the importance of local revenue sharing, not just this region, but to every municipal government in Tennessee. That is also earmarked to be done away with this year. We calculate that if general revenue sharing were wiped out, that this would necessitate local taxes being raised across the board in Tennessee by either 6 percent or a curtailment of services in that amount. So we are sympathetic with what you are saying about general revenue sharing.

TERMINATION OF PROGRAMS WOULD CAUSE PROBLEMS

We are principally concerned today, as you may know, with the problem of economic development and what happens in the region job wise, if some of these economic development programs were terminated.

Just give me your views, and I know your city manager probably knows more about the specifics since he deals with it on a daily basis, minute to minute basis, but in your view what would be the impact of the termination of the Appalachian Regional Commission? What impact would that have on the economic development of this region in your view?

Mayor HUFF. Well, of course, that is of vital interest to the entire area, as Mr. Moore has pointed out. I suspect that it would cause us some problems in trying to attract some new industry. I know the development district that works hard in all of these things, we have what we think is one of the finest industrial department's recruitment anywhere around. Certainly they use what I think, the last thing on this list here was Johnson City Industrial Park power line relocation, $59,500 from ARC. We have a very fine industrial park out here, but the power line is in the wrong place for us to make adequate use of it. We have a new industry coming in so we had to move power lines. All of these things are vital to helping us keep and maintain our efforts to attract new industry, new jobs for our people, and keep us living ahead as we hope we will.

Senator SASSER. In the event that the Appalachian Regional Commission and the Economic Development Administration were terminated, would it be realistic to think that either the local government in this region and/or State government would be in a financial position to pick up the activities that are currently financed by these agencies? Do you see yourself raising taxes, for example, in Johnson City to finance the kind of economic development work that would be done by the Appalachian Regional Commission or by the Economic Development Administration?

Mayor HUFF. Well, just the revenue sharing cost of 15.7 percent. So anything on top of that would be catastrophic.

Senator SASSER. If you lose your revenue sharing, you lose 15.7 percent of your funds?

Mayor HUFF. That would be our deficit.

Senator SASSER. You would have to raise your taxes almost 16 percent to make up for loss of revenue sharing. If you lose the Economic Development Program on top of that, and you seek to make up the difference by raising local taxes, you would be talking about a very, very, very, very substantial local tax hike?

Mayor HUFF. If we had to do that, I would not be running for reelection.

Senator SASSER. So, on that note, Mr. Mayor, I think that is a good one to quit.

ARC AND EDA VERY IMPORTANT TO ADVANCEMENT OF AREA

Just let me ask you one question. I might ask you this and also ask Mayor Easley this: What was it like here in upper east Tennessee and Johnson City and Bristol prior to the Appalachian Regional Commission and prior to the formation of some of these development agencies at the Federal level, like the EDA?

Mayor **Easley**. Well, it was very little activity at that time. You mentioned the Tri-City Airport. I have had the pleasure of serving on that Commission for 12 years. It would not be the developed place that it is today without the aid we have had, such aid as we have had through some of these programs. In itself, not only do we have an excellent airport, but it has helped us to get additional industry here because of the airport.

One of the main plants at Johnson City has this because of the attraction of that airport that caused that plant to locate here. Those things have all worked hand in hand to help develop this area. Without it, this area would not be developed to the point that it is today.

Senator **Sasser**. Would you echo those sentiments, Mayor?

Mayor **Huff**. Yes, Senator.

Just one little, not one, but one great thing, what the ARC has done for our university and our medical school. There is the library, nursing home, classrooms. Thousands of millions of dollars, and our medical school is vital to Johnson City, and I think this entire area. It is a very important part of the improvement, the progress of this area is making, and certainly, unless I am mistaken, and I am sure there are people here who can tell me right quick if I am, I do not believe we would have the highway that we have without the ARC grants. So they have been important. They have been very, very important to the advancement and the progress of upper east Tennessee.

Senator **Sasser**. Mayor Huff, thank you very much for your testimony and appearance here today.

I wish to express my appreciation to you, Mayor Easley, and also to Tom Moore, the City Manager of Bristol, TN. Thank you for being here today.

We will be reviewing your testimony in Washington before we mark up this budget.

I might say to Mayor Easley and Tom Moore that every time I see my colleague, Senator Warner from Virginia, I ask him how we are coming on the Bristol Water Works. I have even promised to try to get it named after him, if you go ahead and get that complete. He is taking an interest in it.

Mayor **Easley**. Thank you very much.

Senator **Sasser**. Thank you, Mayor.

Our next panel will consist of Mr. Charles Harwood, the executive director of the First Tennessee Development District. Prior to that, he was director of Regional Planning and Economic Development for the North Central Florida Regional Planning Council, and director of the Department of Community Development for the city of Stillwater, OK.

Mr. Harwood received a master's in urban planning in 1971, and a master of arts in public administration in 1972, both at the University of Illinois. I suppose at Urbana, IL.

Mr. **Harwood**. Yes.

Senator **Sasser**. And he was the director of the Department of Community Development for the city of Stillwater, OK.

He will be joined on the panel by Mr. William Keel. Mr. Keel is knowledgeable in economic development matters. He has worked closely with the upper east Tennessee area in development projects. He has worked closely with the Appalachian Regional Commission. He has been a former Deputy Director of the Small Business Administration in Washington. He served many years as Administrative Assistant to the senior Congressman in Tennessee, Congressman Joe L. Evins, who was instrumental in the formulation and financing of the Appalachian Regional Commission earlier.

He has served on my staff in Washington, DC prior to his retirement to get out in the private life and make his fortune. He now has his own consultant business in the field of government relations and government affairs.

Gentlemen, I welcome you and we look forward to hearing your testimony today.

Mr. Harwood, why do we not go with you first so that the witnesses can hear you. If you will get to one of the mikes.

STATEMENT OF CHARLES HARWOOD, EXECUTIVE DIRECTOR, FIRST TENNESSEE DEVELOPMENT DISTRICT

Mr. **Harwood**. Thank you, Senator, for this opportunity to comment about the Appalachian Regional Commission, and my remarks will be brief.

Senator **Sasser**. Is that microphone on? Can you hear him?

Mr. **Harwood**. Next week the Appalachian Regional Commission will celebrate its 20th anniversary as a unique Federal agency. The Commission was created with the purpose of improving the policy of life for residents of an extensive geographic area of this country. The Appalachian Region has been neglected and was determined to be substantially behind the rest of the Nation in most respects, and was falling further behind.

Over the past 20 years, the ARC has invested more than $33 million, excluding the development of highways, in the First Tennessee District to make improvements in such areas as education, transportation, health and jobs.

WORK OF ARC NOT FINISHED

These improvements have made a significant difference. I have selected three indicators of change, and I refer you to the second sheet: Population growth, per capita income, and physicians per 100,000 population—to show that some change relative to the State and the Nation has occurred in the past few years.

Let me just move to that very quickly. As far as population change, you will see the two time periods, 1960 through 1970, and then the decade of the seventies, I have identified Hancock County along with the District, Tennessee, and United States for comparison. Hancock County had been declining in population until 1970-80. The other counties within the region had been declining at different rates and had been showing growth.

As far as per capita income is concerned, I have identified Hancock County and Sullivan County in particular. Hancock is statistically the sixth poorest county in the country. I think you can see in terms of per capita income that in 1970 it was approximately 48 percent of the United States per capita income, and in 1980 it had declined. The district had improved some, due to some of the other counties remaining strong and improving. Sullivan County, you will note, declined during that period as far as the per capita income in relation to the United States.

And then physicians per 100,000, you will notice that this district has improved, but it is still at 63 percent of the United States.

I would just mention, as has already been mentioned, that we do have a medical school here, so I think there is still a way to go.

Other Federal programs such as the program of Economic Development Administration aimed at targeting Federal resources in combination with the ARC which, of course, are only available in this region, this part of the country. Of course, TVA is the same way. They have helped this district keep pace with the rest of the Nation, although a pace behind.

What about the future of the first Tennessee district without special attention? Certainly the investments that have been made will continue to have a positive impact on the quality of life. The full impact of these investments has not been realized. However, an unfinished project like U.S. Highway 23 may be just that—unfinished.

One responsibility the Federal Government has is to deal with inequities that exist which local governments and State governments by themselves cannot effectively correct. This responsibility will not vanish simply because the Federal Government decides not to invest any money on the particular issue. It seems apparent from the few indicators of change that I have presented that the district will not catch up with the rest of the Nation any time soon without special attention through programs like the ARC.

Thank you.

Senator SASSER. Thank you very much, Mr. Harwood.

So those that tell us it is time to do away with the ARC because its work is done are not quite accurate, judging by your testimony and the figures you have compiled here.

Looking down through this list of figures, I find that, for example, the first Tennessee development district.

AVERAGE PER CAPITA INCOME LAGGING

Senator SASSER. When we started out from 1960 to 1970, the per capita income was 70 percent of the average per capita income in the United States?

Mr. HARWOOD. Yes.

Senator SASSER. And it is still here a decade later. It has risen but it is still just about 75 percent of the average per capita income of the country?

Mr. HARWOOD. Yes, sir.

Senator **Sasser**. So we are still lagging 25 percent below the average per capita income here in the first Tennessee development district area?

Mr. **Harwood**. Yes, sir.

Senator **Sasser**. Individual counties, we look at Hancock County, for example, the average per capita income is only 43 percent of the average per capita income across the United States, and even Sullivan County, a county that we view as being relatively affluent in this area, is still lagging about 12 percent below the national average in per capita income?

Mr. **Harwood**. Yes, sir.

Senator **Sasser**. Physicians per 100,000, which is a good measure of the affluence of the area and the quality of health care that the people will receive in that area, here in 1980, indicated that although we moved up from having half as many physicians as the average in the United States, by 1980 we still only had 63 percent. In other words, does that mean that we are 63 percent, 63 percent below the national average in physicians?

Mr. **Harwood**. Well, we have 63 percent of what you would expect this area to have, if it matched the Nation.

Senator **Sasser**. So, in essence, we are falling behind. We are about 40—in round numbers we are about 37 percent below the national average in physicians per 100,000 population?

Mr. **Harwood**. Right.

Senator **Sasser**. Even though we have got our medical school open and going. I think that will have a profound impact for the better when we look at these figures again in 1990, if we can keep that going. These are very illuminating figures, Mr. Harwood. I think this really sheds some new light on the arguments of those who would say let us do away with the Appalachian Regional Commission and let us do away with the Economic Development Program because those areas they are tailored to help have already recovered and they are well on their way to prosperity.

I have always felt that you cannot make up 100 or 150 years of neglect in 10 years. That is, in essence, what we are trying to do.

SHORT-TERM AND LONG-TERM NEEDS OF REGION

What do you think are the long-term needs?

Let me correct that to say what do you see as the needs of this particular region, both in the short term and the long term?

Mr. **Harwood**. I made reference to Highway 23 as an example. That is significant for this area. Of course, it has an impact outside just this region, southwest Virginia and North Carolina, even eastern Kentucky, probably. But access in general—access improvements are still needed and very important, especially as growth does occur, and through private investment, create jobs, to get to and from the workplace. There will continue to be needs in the educational area.

We have mentioned improvements to East Tennessee State University. If you had a chance to look at the list of other improvements in this area, the Tri-City State Technical Institute has received investments from ARC over the years. That is critical. That fills another gap, so there will be need there. Those are just some examples.

Senator SASSER. One of the things that concerns me is the ripple effect if these economic development services are terminated. Do you see any ripple effects on the economy of the region? For example, there are a large number—really a disproportionately large number—of elderly citizens in this area—retirees. Would there be any ripple effect on programs like nutrition assistance or health care problems that would be created by the loss of economic development funds and a result of the decline in economic activity?

Mr. HARWOOD. Yes, there would be. In thinking about the different programs—of course transportation is vital to the elderly. The section 18 program, which deals with rural transportation, is important, and the budget that has been proposed would cut back the area substantially, operating assistance in particular. This has a relationship to the nutrition program in the region, so the elderly would feel an impact from that.

MAJOR INDUSTRIAL PARK WOULD BE AFFECTED

Senator SASSER. What project would not be funded this year if the ARC were concluded and all of its funds rescinded and taken back?

Mr. HARWOOD. One specific project that I think of right now is a major industrial park, combination industrial park, commerical development in a key location in the region. That could be affected by the decision.

Senator SASSER. Mr. Harwood, if I could sum up your testimony here, it appears to me what you are saying to us is that although we have made progress here in our region and upper east Tennessee, and part of this progress can be attributed to the Appalachian Regional Commission and other economic development agencies, that we have still got a way to go, and that this is, in your judgment, judging by your testimony, is no time to be doing away with some of these economic development programs, tailor-made for this region?

Mr. HARWOOD. Yes, sir.

Senator SASSER. Is that a fair statement?

Mr. HARWOOD. Yes, sir.

Senator SASSER. Mr. Harwood, thank you for appearing here today and giving us that information.

Mr. HARWOOD. Thank you, Senator.

Senator SASSER. Mr. Keel, if you would be good enough to take Mr. Harwood's position here or over here.

STATEMENT OF WILLIAM KEEL, CONSULTANT

Mr. KEEL. This is a map which I thought you might like.

Mr. Chairman, Senator Sasser, and my able and genial former colleague, Mr. Lance Simmens, a distinguished member of the staff of the Senate Budget Committee, and Mr. Paul Bivens, who is the manager of the Senator's Tri-City office at the airport, and does an excellent job, I appreciate this opportunity to join you here today to discuss Federal policies relating to economic development.

As you indicated, Senator, I have been a strong supporter of the Appalachian program since its inception and before. I was administrative assistant to Congressman Joe L. Evans, who was one of the fathers of the program, and he was responsible for funding the program and did it well until his retirement in 1976. Later, of course, I worked with another strong and eloquent supporter, one Senator Jim Sasser, who has also been responsible for substantial funding, so I know what the program has meant and what it will continue to mean to the people in the Appalachian area.

COMPLETED CORRIDOR WOULD ADD BILLIONS OF DOLLARS IN SPINOFFS

More recently, I was retained as a consultant by a number of counties and the city of Chattanooga to work for a completion of Corridor J, an Appalachian highway project, in lower and east middle Tennessee, on paper extending from the Kentucky line to the Georgia line. And I say on paper advisedly because the project as it now stands is only partially completed. Parts have been completed, other sections have not been completed. Rights-of-way have been purchased for virtually the entire 138 miles, but only 85 miles or so are finished, and so you have these areas which are called the "barrens." They are wastelands. People have been displaced. Homes and businesses have been demolished, and the project is not moving.

In my view, these barren areas are monuments to poor public policy.

My plea today on behalf of the half million people in middle and east Tennessee is that we yield to commonsense and complete the project. The United States has already invested something like $140 million in the corridor, and we estimate $160 million would complete it.

Before testifying today, Mr. Chairman, I talked to our mutual friend, Mr. Eldon Leslie, executive vice president of the Cookeville and Putnam County Area Chamber of Commerce, and he reminded me that the partially completed highway, just the partial access, has resulted in an investment of something like $300 million in new business and industrial development in the upper Cumberland area. As a matter of fact, I can recall when I was with Congressman Evans that when Cummins Engine Co. was induced to locate in Cookeville, one of the inducements was that it would be near the confluence of the interstate highway and the new Appalachian corridor.

If that corridor were to be completed, stretching from Kentucky to Georgia, it would not only add billions of dollars in economic spinoff from new development, it would provide a new and shorter route from the Midwest to Florida through a beautiful scenic area.

It is false economy, myopic, shortsighted, absurd economy, to limit the effectiveness of the highway when it could mean so much to so many people in the State of Tennessee and in other States.

I regret very much the negative attitude of this administration toward needed economic development through a Federal and State partnership. I might add that there are little prospects for any diminution in policies that flow from this negativism.

As a straw in the wind, I noticed the other day Mr. Pat Buchanan, the columnist and commentator, is returning to the White House to write speeches for President Reagan. This does not augur well for positive thinking. His record speaks for itself.

You may recall those stirring words penned by Mr. Buchanan and spoken by Vice President Agnew years ago when he called the members of the press, and I quote, "those nattering nabobs of negativism."

Some folks might think those words fit the current administration and its policy to a T. I can think of some better words, however. I think that administration officials using the current deficit crisis to obliterate or cripple such programs as the ARC and EDA might well be called "those dastardly death spots of destruction and deprivation."

I resent this budgetary blackmail, "debt mayhem." I believe it is being called by discerning folks in Washington these days.

PRESIDENT'S FISCAL POLICY CREATED THE DEFICIT SITUATION

I do not have to tell you what is happening is this: The President's fiscal policy created the deficit situation. Never have such huge deficits been created by one President. His $750 billion tax cut, for big business and the wealthy primarily, his huge increases in defense spending have drained the Treasury. He did it. It is his program. It is his baby. But since his mistake has created a national crisis that demands action, the problem must be addressed. But how? That is the issue.

I suggest that rather than rather cutting the heart out of programs for people, that Congress take a hard look at the Department of Defense. The administration wants an 11-percent increase in defense spending, some $30 billion in increased spending for the next fiscal year. My own feeling is that some of that money would be better used for Appalachian programs rather than being expended on such items as $400 hammers, $7,000 coffee pots, and $600 toilet seats in the Department of Defense.

For the record, I would like to document my statement as to the source of the problem. The President blames 50 years of spending by Congress for the deficit crisis. The record shows otherwise. He is the major factor, not Congress. During the past 40 years, Congress has cut Presidential budget requests 37 years—37 out of 40. Only three times has Congress exceeded the budget request.

In fact, this President is the biggest deficit spender in our history. Analyzing deficits President by President, we find that under Franklin D. Roosevelt, annual deficits averaged less than $17 billion a year. I will not read the entire statement. It analyzes the average annual budget deficit for each President, and the highest average annual deficit before this time was $66 billion under President Ford, and the Reagan Administration averages more than 2½ times as much, or $175 billion a year.

Senator SASSER. It will be $215 billion this year, the last estimate.

NATIONAL DEBT DOUBLED IN PAST 4 YEARS

Mr. KEEL. More than three times as much.

The national debt has doubled during the past 4 years and may well triple during the next 4.

So what we have here is the administration using a method created as an excuse to cut programs that it hates, programs for people, ARC, Economic Development Act, Medicare, farm programs, education programs, health research, small business programs.

The people who benefit from these programs are being hurt, or would be hurt if the proposed cuts are approved, what about big business and the super rich? Well, the conservative Knoxville Journal recently carried a story on January 10, concerning 299 couples and individuals who had incomes aggregating $149 million and pay no taxes. Some major corporations are getting tax refunds. Many of them pay no taxes. It is easy to extrapolate those examples through the network of wealthy and large corporate taxpayers who understand where the Treasury drain is leading us.

This underscores the pernicious perfidy of an administration that creates a deficit crisis through its own policies, and then use as the crisis it has created to use programs for people.

These minacious manipulators of the public interests reminds some folks of a fellow who sets a house on fire and then mugs the victims as they leave, and then blames the next-door neighbor for the fire.

That concludes my statement, Mr. Chairman.

Senator SASSER. Mr. Keel, let me address to you two or three of the same questions that I addressed to Mr. Harwood. I am glad to see that you still have a little ginger in your views and remarks here.

REGION'S PRIMARY NEED IS ACCESS

What do you see as the needs of this region, both short term and long term? In your view, would this area be in a position to finance and pick up the Economic Development Programs, such as ARC, if they were terminated?

Mr. KEEL. I agree with Mr. Harwood, that the primary need is access. There is a vast area there stretching all the way from Kentucky to the Georgia border where you have just got this road built in fits and starts. If that road were completed, and those somewhat isolated places made accessible, then there would be a present boom in economic development, plus the flow of traffic and the spinoff it would create from Chicago down to the Midwest and down on into Florida.

Senator SASSER. Some have said over a period of years that one of the things that has caused the economic problems of Appalachia have been a relative isolation of this region from the rest of the country, lack of access, lack of adequate roads, and that sort of thing, because road building has been so difficult through this region. Now we have seen a number of roads built by the ARC during the past 15 years, but is it your contention that the job is not yet done and we need to go forward with additional roadways and open up other areas here in east Tennessee and even down in some regions in the middle part of our State?

Mr. Keel. I think that everybody in Appalachian area would be delighted if they would just go ahead and complete what is on the drawing board, and follow the recommendations of the Governors, the Board of Governors, I believe it is called, which recommended a program of completion. So the answer is yes.

Senator Sasser. The Governors, as I understand, have recommended an orderly termination of the ARC program and its programs by 1989, feeling that in the time of fiscal austerity, if they could stretch it out to 1989, they might be able to complete some of the most critical programs.

Do you have any thoughts on that?

Mr. Keel. Well, they are recommending appropriations far in excess of what the administration recommends. Their program would essentially get the job done.

Senator Sasser. Do you see the elimination of these various economic development funds as a retreat on the part of the Federal Government from a long and acknowledged commitment, economic development that goes back even before the days of the TVA Act, 1935?

Mr. Keel. I think it is a disgraceful disregard for the basic rights of people in depressed areas. These programs were started because there was a need. You have seen the circle go full cycle. We are getting back, they are proposing to eliminate the programs, and when they eliminate it, the need will be there. In a few years, we will need to invent the wheel and start the programs up and proceed. It is very foolhardy.

OUTMIGRATION OF YOUNG PEOPLE IS A CONCERN

Senator Sasser. My concern is if the program is terminated now, we are going to see an outmigration of young people, of educated young people, because there will be no jobs. We will start once again the long cycle downward into the scarcity and poverty that the region has been trying to crawl its way out of for the past 30 or 40 years. If we lose these programs, then we are going to sink back into the morass and we are going to find ourselves in worse shape 15 or 20 years down the pike than we were when we started 30 or 40 years ago, relative to the rest of the United States.

Is that a fair assessment?

Mr. Keel. That is a fair assessment.

When I first went with Congressman Evins, outmigration was extremely heavy. We have seen that almost reverse.

You just attended the funeral of our mutual friend, Matthew Caldwell in Nashville. Matt worked with me in hearing so much of this on the Small Business Committee. He wrote the testimony for a judge in Clarke County which indicated that every year they wore out a hearse to go up to Indianapolis to bring Clay Countians back to bury them. It is just sort of a pocketful. It shows what can happen when they do not have the resources to live in their own community.

Senator Sasser. Mr. Harwood's figures here, one county that I assume he uses as a bellweather county in this area, Hancock

County, had a decline in population of 13.4 percent in the decade of 1960 through 1970, but the decade of 1970 through 1980, it turned that around and started having a population growth, which I assume means that it is retaining the young people back home with jobs and educational opportunities there, even though the county continues to have a very high unemployment rate relative to the rest of the country. But at least there has been improvement enough that they were retaining their population there in the decade of the 1970's and 1980, that they had been losing in the decade of 1960-70.

Well, Mr. Keel, thank you very much for your testimony.

Mr. **Keel**. Thank you, Mr. Chairman.

Senator **Sasser**. And your appearance here today.

Thank you, Mr. Harwood.

Our next panel today is comprised of the Honorable Howard Garland, the distinguished county executive of Unicoi County. Mr. Garland has served as County Executive for Unicoi County since 1966, and he will be joined by the distinguished county executive of Hawkins County, Mr. J.B. Howe. And Mr. Howe has been county executive for Hawkins County for 19 years. Judge Howe was born and reared in Rogersville, and received his bachelor in science and social studies from East Tennessee State University in 1949.

Gentlemen, welcome. We are delighted to have both of you here today, and look forward to your testimony.

I think in terms of seniority, Judge Garland, you have probably served longer than Judge Howe.

STATEMENT OF HOWARD GARLAND, COUNTY EXECUTIVE, UNICOI COUNTY, TN

Mr. **Garland**. About the same.

Senator **Sasser**. About the same. We are going to take your testimony anyway.

Mr. **Garland**. I will not try to be that much trouble. I am not going to stay that long.

First, I would like to thank you for the opportunity of being here. Mr. Moore and Mr Harwood and perhaps another or so touched on generalities which I can verify very, very well.

Access is a very important matter to the area. As a matter of fact, we did not have mile one of four lane roads in Unicoi County until the Appalachian Regional Commission came into being. We had an outmigration from our county that, while not as pronounced as Hancock County, there was an outmigration.

Today, for each hundred people that are employed in Unicoi County, 22 of them leave the county for work. That tells you something about the number of industries that we have there. And it also tells you something about the need, what an industrial park may do, and we do have two very nice ones now for the future.

SERVICES COULD NOT BE PROVIDED WITHOUT HELP OF AGENCIES

Senator Sasser and I have talked about these two agencies before, and without the assistance that we have had from them, there is no way that Unicoi County could provide the goods and services for those people that they are receiving today. That goes all the way from health care to, you name it, whatever it may be.

For example, in the field of health care, the first nursing home that was constructed in the county was built with the help of funds from one of these agencies. We have one small hospital. The improvements that have been made to it over the years have been a result largely of grants that have been received from either EDA or ARC. There is no way in evaluating the value of the medical services that have been rendered to our people due to these things.

At one period of time, we did not have—we had a number of people that did not have a family doctor. We could not get doctors to come in. With EDA funds we constructed a doctors' building. And that result was two more doctors to the community. We could not have had these.

We have a very modern fire department in the city of Erwin, and one that serves the south side of the county. These were made possible by way of grants.

Then we have a very nice vocational school and $589,500 of the money used in this came from grants.

Now, I do not know how you measure the value of a vocational school to a county, or how you equate it to dollars. I doubt if there is any way that we could adequately do that.

We have one 11-acre industrial park, and we have one of 64 acres that has just been recently completed. ARC put in $535,000 into this deal. In the small industrial park, we have two industries presently, and we have a great deal of hope for others in the near future.

Even the water that supplies the town of Erwin has benefitted from ARC to the tune of $250,000. As a matter of fact, since its inception, we have received more than $2.7 million in EDA and ARC funds.

I guess I have a question about this. I think we need to eliminate some expenditures, cut out fat wherever it may be, or waste wherever it might exist. I am not an authority on that, but I do have a question. Why eliminate two of the very best programs going, programs with a proven track record?

MONEY WOULD BE HARD TO RAISE

Let me translate that just a little bit in abstract terms. In our county paying a penny on our tax rate brings in about $5,250. What would our rate have been had we tried to provide these vital services to make up for these dollars that had come in?

Again, our county, my good friend, the city of Johnson City, the State of Tennessee and the Federal Government own a great deal more than 40 percent of the land area of Unicoi County. While they are good friends and do a good many things for us, they are not on the tax books.

Once more, with the tax base of this size, this structure, how do we raise money?

By nature I am conservative, but I am concerned with the deficits we are running but, again, I believe that these programs are vital to our area, vital to the service that we could provide for our people. Once more I have the question, how are we going to raise the money to provide for these goods and services that are presently being provided without the benefit of these two organizations, or should we just eliminate them?

ARC and EDA are in somewhat the same category as revenue sharing. To eliminate them is not so much as to reduce expenditure as it is to shift the expenditure from the Federal Government, who ought to be in the best position tax wise to fund these, to the locals who are in perhaps the poorest condition to do that.

Again, just today Mr. J.B. and others in a comparable position to me were advised by the Public Service Commission that the railroad serving our county, in Unicoi County, they will pay $90,000 less in taxes than they paid last year, a reduction of 64 percent.

I would like for us to be realistic and, at the same time, a bit practical. How are our local governments to survive and absorb all the losses they are faced with and provide the same degree of service that people have come to expect?

Thank you.

REVENUE NOT AVAILABLE AT LOCAL LEVEL

Senator SASSER. Thank you very much, Judge Garland.

There are one or two questions I would like to ask you.

You made the point in your statement that if we do away with these programs, what we would be doing would be shifting the burden of the programs back to local level.

Now, my question to you is, do you have the resources at your disposal at the local level, that is the tax resources, the revenue, or could you raise the revenue to finance the kind of benefits and projects that the ARC and the EDA and community block grants have brought to Unicoi County?

Mr. GARLAND. No way.

Senator SASSER. No way you could do it?

Mr. GARLAND. There is just no way. As a matter of fact, we will have a hard time. It will cost us 18 cents on the tax rate just for the $90,000 that we lose from Seaboard Coastline today.

Senator SASSER. Had it not been for these programs then, I gather from you that the projects that you describe for us here today, health care facilities, industrial parks, vocational education, water system improvement, et cetera, roads, I suppose they just would not have been built?

Mr. GARLAND. No way. We just do not have the capability of doing those things in our county. We have 16,374 people. There is no way with 118,000 acres of land that you might tax and 53,000 of it owned again by my good friends, the city of Johnson City, the State of Tennessee and the Federal Government, that we have the capability of doing it.

Senator SASSER. Do you feel that these projects that these programs have brought to your county, Unicoi County, do you think they have been instrumental or, at the very least, helpful in stopping the outmigration of population from Unicoi County?

Mr. GARLAND. The outmigration has stopped. It is not very pronounced, but it has stopped. With the industrial parks and the prospect we have for new industry and that sort of thing, and we would not have had any prospect for that new industry had it not been for the park, the day has long gone by the board where you can pull up to a field and say to a guy that wants to relocate, "I may be able to buy this for you." Today the park itself is hardly enough. I believe that Eddie Williams or Fesmire, whoever the experts are in that field in this area, will tell you that 90 percent of the people that contact their office are looking for existing buildings. It is not really enough, but it will help a very great deal, and it does get traffic and from traffic you do generate prospects.

WORK STILL LEFT TO BE DONE

Senator **Sasser**. One final question, Judge Garland.

You have served as county executive of Unicoi County now for almost 20 years. In fact, it will be 20 years next year. You have been very energetic, I know this from my personal experience with you, you have been very energetic in securing the help of the Appalachian Regional Commission and the other Federal development agencies for your county, and because of your energy and dedication, there have been considerable capital improvements made in Unicoi County.

My question to you is, do you feel the job has been completed in your county as far as the Federal development agencies are concerned, or is there still work left to be done there?

Mr. **Garland**. There is work that desperately needs to be done. Again, that we do not have the capability of doing. I think we have used the Federal dollar very wisely.

For example, the courthouse was built with revenue sharing largely speaking. The industrial park was built entirely with ARC funding. The county does not have a darn dime. They are very nice now. There is no way we could have had them without it, and there are similar projects that need to be done and will continue to be done.

ECONOMIC DEVELOPMENT PROGRAMS ARE AN INVESTMENT

Senator **Sasser**. I said that was my last question. This will be the last one.

Do you consider these Federal economic development programs to be cost efficient and cost effective? In other words, do you consider them to be a wise expenditure of the taxpayers, Federal tax dollar?

Mr. **Garland**. Let me answer it this way. I consider them an investment, because, like for now, when you get an industrial park, you bring in an industry—one of the things that they require from these expenditures is that you hire low middle income of a given percent. You take those people off of relief and put them on a payroll and make a taxpayer out of them. I consider those expenditures an investment rather than an expenditure. I am very fond of them. I hate to see them go.

Senator **Sasser**. Judge, I was just sitting here adding up the amount of funds that have gone into Unicoi County since 1966 and all that you have done with those funds. You might be interested to know that even though millions of dollars have gone into Unicoi County, when you total all of those millions up, you could buy one-quarter of one F-15 fighter plane with all that money, just one quarter.

Thank you, Judge. Thank you very much.

We will hear now from Judge J.B. Howe. Judge Howe, if you will take the seat up here, we would appreciate it.

STATEMENT OF J.B. HOWE, COUNTY EXECUTIVE, HAWKINS COUNTY, TN

Mr. **Howe**. Senator Sasser, we are pleased and delighted to have you in upper east Tennessee.

Senator **Sasser**. Thank you.

Mr. **Howe**. Mayor Huff, if he is present, elected officials of upper east Tennessee, I am J.B. Howe, county executive of Hawkins County, and serving in this capacity for some 20 years, 19 years.

Senator Sasser, I am pleased and delighted always to be a part of this hearing this afternoon here in Johnson City. I think I can perhaps better speak for the people of Hawkins County rather than the region, even though I have been a member of the Tennessee, one time Virginia, now Tennessee Development District for some 19 years, and I have worked with people throughout this region.

Speaking to some of the Hawkins County Federal funds that have been contained and how those funds have been useful and worthwhile to the citizens of Hawkins County, there is a list that I think you have, Senator Sasser. I did note the projects in this report. Most of those projects are the big projects with ARC and TVA funds, Mr. Andy Rye, who assisted Hawkins County greatly in the past 2 years because of the Phipps Bend Nuclear Plant, now defunct. They have assisted Hawkins County.

GROWTH HAS COME FROM FEDERAL FUNDS

Let me speak first to the growth of Hawkins County. From 1970 to 1980, 10 census years, Hawkins County grew at a rate of 29.6 percent in population. We are the fastest growing county in upper east Tennessee. We are the fifth largest growing county in the 26 east Tennessee counties.

I think this growth has come about primarily by means of the use of Federal funds, Senator Sasser, ARC funds, HUD funds, Federal revenue sharing funds, TVA economic community development funds, community development, block grants and FHA funds. We have received not much more than Judge Garland has received in Unicoi County, but we have received $3,227,000 in Hawkins County from these various Federal agencies. These Federal funds were received not only by Hawkins County but by the five incorporated cities in Hawkins County for projects within those cities: Rogersville, Bulls Gap, Church Hill, Surgoinsville, and Mount Carmel.

Senator Sasser, we always want to point out that Kingsport is also a part of Hawkins County. We appreciate that in some instances, but liquor by the drink we did not appreciate too much. [Laughter.]

These Federal funds have helped these cities, the water lines—let me mention this, I think it is very important that it be mentioned. In the Mooresburg community to the Sullivan County line of the city of Kingsport is 42 miles. As a result of funds obtained through the Federal Government, and with the assistance of TVA, Mr. Rye, we now have water lines all the way from the western Hawkins County line to the Sullivan County line in eastern Hawkins County. This has meant a great deal to the people of Hawkins County in that it has helped new industry. Just recently, two new industries are coming into our area: One came about 3 years ago, and we have a new industry that is going to start construction. Everything is worked out. They are going to start construction in April of this year. We realize the need, as most counties and States do across this Nation, with the budget deficit as it is, there should be, as Judge Garland pointed out, some of the fat should be taken out perhaps.

FUNDS DO NOT COST THE FEDERAL GOVERNMENT

Let me say this. In Hawkins County, in the past 20 years, we have acquired or secured, whichever the word may be, 12 new industries; 20 years ago, we had 700 industrial and manufacturing jobs in Hawkins County. Today we have well over 6,000 jobs, providing people with new homes, providing new tax base for the county. Two of those 12 new industries are on the Fortune 500, TRW and Reliance Electric.

We think, Senator Sasser, and we feel that these funds really do not cost the Federal Government.

Let me give you a recent example. Strolee Corp. of California, producers of juvenile furniture and child restraint seats, has something like 300 employees in Hawkins County. They had a grant of $418,800. During their 2½ to 3 years in Hawkins County, I am sure that those employees there have paid in Federal income taxes the $418,800 that was made available.

What we would like to say, these funds do not cost the Federal Government. It pays the Federal Government and it does it in many ways. I think this is one of the things we fail to notice and fail to realize as we go along.

Judge Garland mentioned a nursing home. Let me mention that maybe a year or a year and a half after ARC funds became available, there was a dire need in Hawkins County for a nursing home. No question about it. We had six in upper east Tennessee, nursing homes, a couple in Johnson City. Not skilled nursing homes, but nursing homes. Mostly homes that were converted into nursing homes, residential homes. We saw a real need in our county and, as a result, this $78,000 back at that time was quite a bit of money, when we were going out and getting public subscription. I happen to know, because I was on the board at the time. Now, in Hawkins County we have 260 beds in both of the nursing homes. We have two. We have a tremendous waiting list. This has been a real help. Had it not been for the ARC funds, I doubt very seriously whether the nursing homes could become a reality.

I mentioned the Hawkins County water line, which now extends for 42 miles, from the Mooresburg area to the Sullivan County line.

The Rogersville Industrial Park, just 3 weeks ago, we had the announcement of Assured Casting Co., 100 employees, wages somewhere around $6 to $8—not up to par with TRW or Reliance Electric, but a good company.

Let me mention one other area is the Hawkins County gas line which has made natural gas available to many areas in the county where heretofore it was not available.

REAL NEED FOR FUNDS TO CONTINUE

We just see a real need for these funds to be continued. I do not want to take up too much time, but I do want to mention one thing. Federal revenue sharing, which I have an interest in general sharing funds because it has done so much for Hawkins County—we have not used—primarily we have not used those funds as ongoing projects for salaries and things of this nature. Capital outlay projects and the projects that we have pretty much used those for. We built a new city county building in Church Hill, TN, beautiful building, back 7 years ago. We built the new jail facility, at one time rated the seventh best jail in the State, but decertified about seven years ago, but it was built by State specifications. That is the way things change in this everchanging society. We were rated as the seventh best and now we are decertified. I have mentioned this at other meetings.

This is about all, you know, that I would say, I guess I need to testify to. I do want to emphasize what I said, that there is a dire need, especially for those funds, Senator Sasser, that are going to provide jobs for people in this area. I am particularly interested in that, the ARC funds.

We have made the use of HUD funds in our county. You mentioned the meals. We serve something like 180 meals to senior citizens per day. We have three senior citizen and three nutrition centers in Hawkins County. We are pleased to have you and pleased to have these gentlemen in Johnson City.

Senator **Sasser**. Thank you, Judge Howe. We deeply appreciate your appearing here today and giving us the benefit of your views.

[The prepared statement of Mr. Howe follows:]

SENATOR JIM SASSER
BUDGET COMMITTEE HEARINGS
CITY HALL, JOHNSON CITY, TENNESSEE
601 EAST MAIN STREET
JOHNSON CITY, TENNESSEE
FEBRUARY 15,1985 2:00 PM to 4:00 P.M.

STATEMENT OF:

J.B. Howe
County Executive
Hawkins County, Tennessee
150 Washington Street
Rogersville, Tennessee 37857
Phone AC 615-272-7359

Senator Sasser, fellow elected officials, ladies and gentlemen, I am J.B. Howe, County Executive of Hawkins County, Tennessee and serving in this capacity for some nineteen years. It pleases me to be a part of this program this afternoon, and I truly believe that I speak for a vast majority of Hawkins Countains, and that my views are shared by many elected officials throughout this region and the State of Tennessee.

Having served for almost nineteen years as Chief Executive of Hawkins County and active with the First Tennessee Development District which comprises eight Upper East Tennessee Counties, and other Regional Agencies, I believe that I am well familiar with the Federal Agencies which serve this region. I believe that all present here today feel that the best approach to any endeavor is through REGIONAL Approach, however, I shall attempt to speak only for Hawkins County in reference to Federal Funds, and how these funds have been very useful and worthwhile to the citizens of Hawkins County.

Projects noted in this report (Attached) are projects that have been instrumental in the growth of Hawkins County, and I want to point out that Hawkins County is the fastest growing county in Upper East Tennessee with a 29.6 % growth from 1970 to 1980, and Hawkins County has maintained that growth through 1983. The projects are Hawkins County projects, however, City projects are included for those five cities in Hawkins County.

Since 1967, Hawkins County has received the following monies from the specified Federal Agencies set out below.

ARC FUNDS		$ 1,220,339.
FHA FUNDS		260,000.
HUD FUNDS		1,264,250.
HCRS FUNDS		107,790.
CBDG FUNDS		375,000.
	GRAND TOTAL	3,227,379.

See attached form for specific use of the above funds and for the fiscal year that said funds were obtained.

Federal Funds as specified above has helped Hawkins County and its five cities, ROGERSVILLE, BULLS GAP, CHURCH HILL, SURGOINSVILLE and MOUNT CARMEL in the following areas, water lines, sewage treatment plants, health buildings and equipment , fire trucks and equipment, senior citizens center and library, natural gas lines, nursing homes, and perhaps most of all, site preparation and utilities for new industry which has provided several hundred new jobs for Hawkins County and its citizens, not to mention Federal Funds for Bridge Programs in Hawkins County.

We realize the need across this nation for reduction in the Federal Buget Deficit, a vast majority of counties and cities across this nation support that need to reduce the Federal Deficit, and have done so since the late seventies, and I believe that truly counties and cities want to share that burden in a fair and equitable manner.

It is the position of the National Association of Counties as it is the position of many counties across this nation that we do indeed want to accept our fair share of the reduction of the Federal Deficit, however, we believe that the best way to acomplish this is by imposing a FREEZE, as opposed to deep and drastic cuts in programs that are vital to health and welfare of the sick, poor and elderly.

We believe that the delivery of Federal Programs is best left in the hands of local government, the government closer to the people, and the government with the best prospective.

If we are to continue to attract new industry throughout this nation as we have in Tennessee and Hawkins County it is imperative that we retain the ARC,HUD, and FHA programs that assist new industry, and enhance existing industry, allowing for new jobs which are derived by water services, sewer services, training, utilities, roads and other programs necessary to the growth of existing and new industry.

GENERAL REVENUE SHARING FUNDS:

One of the top priorities of local government should be the full funding of General Revenue Sharing Funds. This is without doubt the best and most popular of all federal funding. A program whereby decisions for the expenditures of said funds are made on the local level, and with little or no input from the Federal Government. These funds are used in Hakins county for EDUCATION, HIGHWAY PURPOSES, HEALTH (Rescue Squads who provide ambulance service) SENIOR CITIZENS BUS DRIVERS. Hawkins County's allocations for fiscal year 1984-85 FRS is $ 435,000.00

ATTACHMENT:

HAWKINS COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1967	Hawkins County Nursing Home	ARC	$ 78,645
1968	Church Hill Sewage Treatment Facility	ARC	207,000
1975	Surgoinsville Dental Clinic (Loan)	FHA	30,000
1976-78	Phipps Bend Energy Growth Management	ARC	120,000
	Hawkins County	HUD	354,000
	Mt. Carmel Municipal Building (Loan)	FHA	160,000
1978	Hawkins County Water Line	ARC	150,000
	Hawkins County Dental Equipment	ARC	28,000
	Rogersville Fire Trucks (Loan)	FHA	70,000
	Hawkins County	HUD	100,000
1979	Rogersville	HUD	373,250
1981	Rogersville City Park	HCRS	107,790
	Rogersville Industrial Park	ARC	176,587
	Rogersville Neighborhood Revitalization	HUD	437,000
	Hawkins County Gas Line	ARC	41,307
1982	Strolee Industrial Site	ARC	418,800
1983	Rogersville Assured Casting Co.	CDBG	375,000

Senator SASSER. You have, like Judge Garland, compiled a remarkable record in Hawkins County securing ARC funding and HUD funding, community development block grant funding, and have done an enormous amount for your community in this Federal funding.

I will ask you this, would it have been possible, using local resources in that county or even local resources in conjunction with State resources, to build the very facilities that have been constructed since 1967 in Hawkins County?

Mr. HOWE. Senator Sasser, we would not. We would not have been able perhaps to follow through on any of these projects.

Let me point this out, too. The property tax in most Tennessee counties, I am not saying all Tennessee counties, in most Tennessee counties is at a saturation point. We have a $4.28 tax rate. That is extremely high. We are probably the top 20 percent in the State of Tennessee.

Education, as you well know, any more takes up a great portion of any county, city, or any entity's budget. Second, it needs to be a priority. If we just can keep up with the costs of it, the rising cost of education, I think we will do well.

I can think it would be almost impossible to place the burden upon the citizens of the county or the property holders of the county to bring in any type of funds such as we bring in through a Federal program.

FEDERAL MONEY HAS SEEN USED WISELY

Senator SASSER. Looking down through the list of projects that have been completed in Hawkins County, I note sewage treatment facilities, water lines, industrial park, neighborhood revitalization, county gas lines, et cetera, et cetera.

Now, you mentioned a moment ago two very good high paying industries that have been attracted to Hawkins County. Do you think it would have been possible for you to lure these industries to Hawkins County if this infrastructure had not been in place there or had not already been constructed or in the process of constructing it?

Mr. HOWE. Senator Sasser, I doubt if we could accomplish this without Federal assistance.

Senator SASSER. What you are telling us then, Judge, is you have taken this Federal money, you have used it wisely, you have built an infrastructure there with which you have been able to attract high paying industries to give jobs to your people and raise the economic level of Hawkins County over a period of 10 or 15 years?

Mr. HOWE. We most certainly have.

Senator SASSER. I would say that is a success story for the programs. You have utilized these programs very wisely.

I ask you the same question I asked your colleague, Judge Garland: Do you feel that these programs have done their work now in Hawkins County, and that you can get along now just as well without them?

Mr. HOWE. Definitely not. We feel that we need ongoing programs such as are offered by the Federal Government, especially the Appalachian Regional funds.

Senator SASSER. Judge, thank you so much for appearing here today and giving us the benefit of your testimony. It has been most helpful and we appreciate it, both you and Judge Garland appearing.

Mr. HOWE. Thank you.

ECONOMIC DEVELOPMENT PROGRAMS MOST BENEFICIAL

Senator SASSER. I might say before we conclude that the testimony we have heard today I think bears out what I suspected before we arrived, and that is what we have heard here amounts to a testimonial to the fact that we were in a state of economic distress, that these various economic development programs here and certain communities in upper east Tennessee have been most beneficial. It has allowed local governments, both city and county, to do things that they could not have done on their own, because the tax base and the wealth simply did not exist in these communities. As a result of these programs, we have seen the development of an infrastructure that will support industry in this area, that will attract jobs into the region, that will provide jobs for our young people so that it is no longer necessary, as Mr. Keel said, to wear out an ambulance sending it from Clay County up to some place in Indiana to bring them back when they pass away. Give our people an economic opportunity, and that is what these programs are all about and what they have been about.

You have heard Mr. Harwood say to us that if they are phased out, then the resources will not be here still to carry on, and that he fears from his vantage point as a specialist in industrial development and in Government, that we will see an economic migration to the "hot spots," the economic "hot spots" that he described in his testimony in California, Texas, et cetera.

We know that we still have problems here in upper east Tennessee. We still have population that is considerably older than the national average, primarily as a result of the outmigration that took place earlier.

Many of our young people were leaving. This older population puts an additional burden and demands on county government and on municipal government. I recognize, as I think all who testified here today recognize, that we do have a problem with deficits at the national level, but we cannot throw out the baby with the bath water in my judgment.

We have seen over the past 5 years an increase in defense spending in this country of over 50 percent. We all wish and hope and demand a strong national defense, but we see this year again requests for defense spending increases to the tune of 13 percent and an additional $32 billion, which would mean $285 billion this year will be spent for weapons and supporting our military establishment. And if we could spend that much money and increase defense spending that much, it appears to me that we can afford to support programs like the Appalachian Regional Commission, which last year had an allocation of funds of just slightly over $150 million which, measured against the entire flow of Federal funds, measured against the increase in defense expenditures over the past few years, it is really almost a grain of sand on the beach. It is not that much in the overall scale of things.

I am convinced that we should do what we can to keep these programs alive, and they have to take some cuts in the overall cutting process, and there is no way around it. Perhaps we will have to do that, but not just to totally abandon them and zero them out and relegate them to the dust bin of history because they have been too helpful and too beneficial to this area and to its people.

Ladies and gentlemen, I thank you all for appearing here today. We are delighted that the former president of east Tennessee State University, Dr. Culp, was here with us and sat with us throughout these proceedings. East Tennessee State University has been a great contributor to the economic uplifting of this area.

And we are honored to have Mr. Andy Rye, the TVA Appalachian district director, here in Kingsport, join us.

We will keep this record open until March 15. If any interested citizen wishes to make a statement, if you will simply write your statement out, or call my office at the Tri-City Airport, we will take it over the phone and it will be made a part of the record of these Budget Committee hearings, and we will review all of this in Washington when we take up the budget.

Thank you very much for appearing today and the hearing is concluded.

[Whereupon, at 4:55 p.m., the committee adjourned.]

TESTIMONY OF DR. BILLY J. BOND
BEFORE THE U.S. SENATE BUDGET COMMITTEE
JOHNSON CITY, TENNESSEE

February 15, 1985

Mr. Chairman, my name is Dr. Billy J. Bond. I am Manager of the Office of Natural Resources and Economic Development for the Tennessee Valley Authority. My mailing address is TVA, Old City Hall Building, Knoxville, Tennessee 37902.

Thank you for allowing me the opportunity to testify in this hearing.

The recent budget proposal presented to Congress by the President calls for a 70 percent cut in Fiscal Year 1986 in the funds that are appropriated by Congress for TVA's non-power programs. These are programs that promote economic growth and jobs, natural resource development, environmental improvement, and sound farm practices in the TVA region.

I would like to share with you specific activities that would be affected by the proposed budget cuts.

First, all TVA economic development programs would be eliminated. TVA's programs to promote private sector job creation and general economic development within the State and region will be eliminated under the Administration's proposal. This will severely impact employment and income levels throughout the State. Overall, it is expected that TVA's loss of funding would result in nearly 8,000 jobs not being created, and approximately 6,500 people not being trained for job demands in the future for the State of Tennessee.

Perhaps more significantly, the aid provided by TVA to communities in preparation for economic development would not continue, and the State's advantage would not be demonstrated to prospective industries, resulting in the lack of creation of countless future jobs.

As a result of an economic development strategy by TVA, the cities of Bristol, Tennessee, and Bristol, Virginia, have initiated their first joint economic development program. The four-year program, financed by local and private funds, includes establishment of a joint economic development council, an existing-industry task force, an industrial recruitment team, and development of industrial sites and associated marketing packages. The Chamber of Commerce has begun a campaign to raise $1.2 million in local funds to carry out the economic development program, based on the strategy developed by TVA.

An evaluation of a similar Greene County, Tennessee, economic development strategy developed by TVA and completed in 1983 showed that the strategy has set the overall direction for the county's economic development program and has been used to create 500 new manufacturing jobs and $10 million in new investment.

With the proposed budget cuts, all of the activities I have just described would no longer be available from TVA.

TVA has identified the region's 50 poorest counties, and we have developed the Special Opportunities Counties and Cities Program to place renewed emphasis on economic development in these counties. Presently, 24 of these counties are in Tennessee.

Through this program, TVA recently joined the State of Tennessee in establishing a revolving loan fund for Johnson County, Tennessee, that enabled the county to purchase a building to house a new industry in Mountain City. As a result, a new firm has located in the county and 250 new jobs have been created. The county will use lease payments from the firm to repay the loan, and the loan fund, in turn, will be used for other industrial and economic development projects in Johnson County.

A loss of funding in FY 1986 would result in a loss in the Special Opportunities Counties and Cities Program of $1.8 million in capital expenditures and a loss of 800 new jobs in Tennessee.

A study by TVA found that more than 50 percent of all new jobs created in Tennessee come from expansion of existing industries in our State. As a result of the study, TVA developed a program called the Existing Industries Program, which provides money for training to industries and technical assistance which helps companies reduce their operating cost and prepare for expanded production. Last year we worked with 30 companies in Tennessee to help them expand. Seven of those companies were located in east Tennessee. In FY 1985, 10 companies in east Tennessee will be provided assistance in expanding their operations by TVA. Overall, it is expected that more than 3,000 new jobs will be created State-wide this year under this program. Zero funding in 1986 would, of course, totally eliminate this effort.

TVA, Tri-Cities State Technical Institute, and the Johnson City/Washington County Industrial Development Commission are cooperating in the development of a high technology training program for new and existing industries in upper east Tennessee. The training program is being implemented from the Industrial Training Center located here in Johnson City. Training is being provided to over 9,000 industrial employees during the four-year period from 1982 to 1986. Presently, over 430 area residents are being trained for specific skills for five local industries.

No funding in FY 1986 would result in approximately 6,000 individuals not receiving advanced training in high technology fields in Tennessee.

Also, a lack of funding would prevent the development of a new State-wide statistical quality control training program jointly carried out with the Tennessee Industrial Training Services. This program would retrain annually approximately 500 Tennesseans employed by Tennessee industries. Through these joint training activities, more than 2,500 new jobs are created annually, resulting in almost $96 million in economic activity in Tennessee.

TVA's Forest Industry Development Program provides technical assistance and helps site new plants in this industry. Based on past performance, the program in 1986 would provide technical assistance to 110 firms and help site 21 new plants, which would create 1,050 new jobs in Tennessee. All of this would be lost if funding for this program is denied.

TVA's Navigation Development Program provides assistance to local governments, port authorities, and private industry interested in utilizing the Tennessee River Waterway. With the opening of the Tennessee-Tombigbee Waterway, there will be a tremendous demand for assistance in designing and developing ports in Tennessee, and planning for more modern navigation locks will become necessary. With no funds in 1986, TVA would not be able to help Tennessee benefit from the Tennessee-Tombigbee Waterway.

Tourism is Tennessee's third largest industry, generating $3 billion in 1982 and employing 76,000 people. In recent years, TVA's tourism and recreation programs have assisted 51 communities, 26 attractions, and 48 travel businesses in Tennessee in capitalizing on tourism opportunities. This includes a variety of assistance and activities with the Upper East Tennessee Tourism Council.

Mr. Chairman, the proposed budget reductions would eliminate all water resources programs of TVA.

Since May 1983, when floating sewage sludge was reported on Boone Reservoir, in Washington County, TVA has been deeply involved in investigations to identify the scope and severity of water quality problems, to collect the necessary data, and to identify solutions to the serious water quality problems at Boone Reservoir. TVA was instrumental in determining the extent of sludge contamination and in assisting the City of Bristol in its removal. TVA monitoring of bacterial concentrations in Boone provided the basis for actions taken by the State of Tennessee to post portions of the reservoir as unfit for recreation. At the request of the State and with congressional assistance, TVA is now developing a reservoir water quality management plan for Boone which will not only identify many of the steps needed to correct existing problems but will provide the basis for improved reservoir management, emphasizing the prevention of serious problems in the future. TVA has identified areas adjacent to Boone where failing septic tanks may contribute to water pollution and will develop onsite sewage disposal techniques for correcting these problems. As a member of the Boone Reservoir Task Force, TVA is committed to finding and implementing solutions to the problems at Boone in cooperation with State and local government agencies and the public. A loss of funding in FY 1986 would completely halt our efforts on Boone Reservoir.

In 1983, TVA completed a Groundwater Situation Assessment of the Tennessee Valley region. One of the findings of that study was that protection was the key in preventing groundwater contamination.

Groundwater in this region is relied upon totally or in part by nearly two-thirds of the population. None of the 60-plus State or Federal agencies with groundwater responsibilities in the TVA region were helping local governments protect groundwater until this demonstration.

TVA implemented a groundwater demonstration project in upper east Tennessee in cooperation with the First Tennessee Development District, located in Johnson City. An initial survey of raw groundwater quality of public water supplies for priority pollutant parameters not required by the State regulatory agency was conducted. Using TVA's advanced organic compound analysis capabilities, a cancer-causing compound, trichlorothylene, was detected in the Roan Mountain water supply, which serves nearly 1,000 people. A loss of funds will eliminate all programs dealing with groundwater protection.

The proposed budget cuts would eliminate all fisheries management, air quality, flood hazard information, and floodplain management programs. Stewardship of TVA land and facilities would be severely curtailed. Demonstration and transfer of better methods of management and operation of natural resources would no longer take place.

In addition to the effect on regional activities, the budget cuts will have a major effect on the national fertilizer development program. About 75 percent of the fertilizer produced in this country uses products or processes developed by TVA scientists and engineers in the National Fertilizer Development Center at Muscle Shoals, Alabama. No comparable research and development center exists anywhere else.

The budget cuts would mean disbanding a major part of the staff at the Fertilizer Center. While some fertilizer research would continue at a reduced level, no funds are included for developmental production and national introduction programs that get new fertilizers tested and used by private industry and the Nation's farmers.

TVA's agricultural development program in the Tennessee Valley region would be eliminated, including cooperative demonstrations on more than 600 Valley farms and demonstrations with land grant universities. We have a total of 16 test demonstration farms located in Washington, Sullivan, and Carter Counties.

The budget cuts will also eliminate TVA assistance to more than 18,000 low-income families that take a few dollars' worth of seed and fertilizer and grow an average of $600 worth of food.

The current budget proposal would end TVA's erosion control program, a cooperative effort with other agencies and landowners to protect farmland and reduce the loss of topsoil. This program is making valuable gains in west Tennessee and other Valley areas that are vulnerable to erosion.

Work on developing renewable fuels is also eliminated. TVA is working on more efficient technology to produce fuel alcohol from the region's abundant supplies of low-grade hardwood. This has the potential to open the way for a new industry that could employ 30,000 people and generate $500 million a year in new economic activity in the region.

In going through this list of TVA's activities in Tennessee, it is not hard to see that all of them affect the economy of Tennessee in one way or another. They help in business and industrial growth, in farming and forestry production, in attracting tourism dollars, and in controlling environmental impacts of economic growth.

Tennessee's growth gains have been impressive over the years--from a per capita average income of only 42 percent of the national average in 1933 to almost 80 percent of the national average in 1985--but Tennessee has been slow to recover from the national economic slowdown of recent times, and unemployment remains high.

The effect of the TVA programs I have discussed today is to make things happen in Tennessee that would not happen without them. And the history of this region shows that an improving economy can make a difference of billions of dollars in tax revenues to the United States Treasury.

Thank you.

etdd east tennessee development district

counties
anderson
blount
campbell
claiborne
cocke
grainger
hamblen
jefferson
knox
loudon
monroe
morgan
roane
scott
sevier
union

cities
alcoa
blaine
caryville
clinton
cumberland gap
dandridge
farragut
friendsville
gatlinburg
greenback
harriman
huntsville
jacksboro
jefferson city
jellico
kingston
knoxville
lafollette
lake city
lenior city
loudon
luttrell
madisonville
maryville
maynardville
morristown
new market
new tazewell
newport
norris
oak ridge
oakdale
oliver springs
oneida
parrottsville
philadelphia
pigeon forge
pittman center
rockford
rockwood
rutledge
sevierville
sweetwater
tazewell
tellico plains
townsend
vonore
wartburg
white pine

February 19, 1985

The Honorable Jim Sasser
United States Senator
298 Russell Building
Washington, DC 20510

Dear Senator Sasser:

I am pleased to be asked by you to make a few remarks concerning the benefits of Appalachian Regional Commission and Economic Development Administration programs to Tennessee.

I would like to say that both programs have been used in Tennessee in a beneficial and constructive way. There have been very few expenditures under either program in Tennessee that have failed to meet the Congressional intent of the programs or have failed to provide public benefits.

I think the major reason for the overwhelming success of both programs has been due to the fact that projects in both cases must be consistent with annually prepared overall development programs which must be adopted by the Development Districts. In addition, Appalachian Regional Commission programs must go through an extensive selection process at the state level prior to approval by the ARC itself. EDA programs are reviewed and studied by the State EDA representative in consultation with the Development Districts. Thus, proposed projects of questionable merit are nearly always eliminated from serious consideration.

A Study by the East Tennessee Development District has shown that ARC and EDA grants have provided over a 15 year period a grant cost per job of $1,459 and $7.08 of annual payroll dollars per one dollar of grant.

I would like to cite just a few projects and their benefits to the region:

Monroe County. EDA funds (together with CDBG funds) recently provided site preparation, water, sewer, and rail which enabled Overhead Door Co. to locate and provide 300+ jobs.

Morristown. ARC and EDA funds provided water, sewer, and roads to develop part of the Morristown Industrial Airport District. (FAA funds provided for improvements to the airport.) The grants have resulted in seven new industries with a total employment of 706 plus expansions now underway to provide for 645 additional employees. This includes Mahle, a German firm.

post office box 19806 • knoxville, tennessee 37919 • telephone (615) 584-8553

Knox County. EDA funds provided water, sewer, rail, and roads for the Forks of the River Industrial Park. This has resulted in $37,892,000 in private capital investment and 3,216 jobs in 27 industries.

Lenoir City. ARC and EDA funds developed an industrial park currently providing 295 jobs and 5 industries.

Madisonville. ARC funds contributed to the Tellico Area Water System have allowed for 110 new jobs and 2 industries in Madisonville.

Loudon. ARC and EDA funds provided water and sewer improvements allowing the Staley Company to locate. This provided for 200 new jobs and a $200,000,000 investment. The second biggest single industrial capital investment in Tennessee history.

Morgan County. ARC funds for water and sewer extensions provided for 300 jobs and the location of Advance Transformer Co.

Sevier County. EDA grants for improvement of the Sevier County Industrial Park have provided 1,024 new jobs and 7 companies.

Sevier County. EDA and ARC funds have provided water improvements for Pigeon Forge and Gatlinburg providing for the continued development of the tourist base of the two cities.

I appreciate this opportunity to comment on the ARC and EDA programs.

Sincerely,

Allen W. Neel
Executive Director

AWN/tg

SUPPLEMENTARY STATEMENT
APPALACHIAN REGIONAL COMMISSION HEARING
February 15, 1985
Johnson City, TN

On November 13, 1963 Under-Secretary Franklin D. Roosevelt, Jr. came to Knoxville and held a mass meeting to explain the provisions of the proposed Appalachian Regional Development Act. It was a long meeting with intermission and then more. Roosevelt in a very compassionate manner did a fantastic job of explaining the purpose of the Act. As I looked into the faces of those people from Hancock County that went there with me that day I could see evidence of the same ray of hope that I was feeling. They would look at me to get my reaction, smile briefly, and immediately return their attention to Roosevelt. His reference to highways drew special interest, because all of us knew this to be our greatest need. Roosevelt explained that instead of upgrading and expanding the existing heavily traveled routes this bill would expand the low traveled routes and create traffic into the isolated pockets of poverty. The media had already well established the fact that we were the eighth poorest county in the United States so we had no problem there. This meeting with Roosevelt dominated the conversation as we drove back to Sneedville. I could never forget this day. Two years before this time when I was elected Mayor of Sneedville, I found our people obsessed with a very negative attitude. It was an attitude of despair. What had not left the county seemed to think the world had passed them by. The population was the lowest that it had been since 1850.

This day in Knoxville, November 13, 1963, had given us new hope and nine days later we were over in Nashville in Governor Frank Clement's Office. Governor Clement promised full cooperation if the Appalachian Bill passed. Two years later in 1965 when the Appalachian Regional Development Act was passed he was loyal to his promise.

The birth of ARC gave us new hope and dreams of a better future. This within itself could well be its greatest contribution. When the bill was passed we had no city hall. City Council meetings were held in a little room over our drug store. On the wall was this motto, "God has never put anyone in a place too small to grow." One of our councilmen who was the only medical doctor in the county came up with another motto "Sneedville Clicks in 66." Sneedville did click in 1966. The First Tennessee-Virginia Development District was organized which included Hancock County. When the possibility of action through this new system became known, the response was immediate and enthusiastic. We were already being assisted in every manner possible by the Upper East Tennessee State Planning Office.

We promised one industrialist that ARC highways would come and on the strength of this promise got our first industry. On a general obligation bond referendum to finance the building the vote for was 98 percent of the voters.

By the end of the 60's the people of Sneedville seemed to have emerged from a spirit of "defeatism." We seemed to have passed the lowest ebb of that "I give up" feeling, the light dawns, and another step in the right direction is found. Our people had come to realize how they were cheating themselves by settling for the compensations of failure rather than the glorious and inspiring benefits of the will to succeed.

Sustained by this attitude I witnessed in early 1969 an all out community endeavor unparalled by any community of our size anywhere. A Texas playwright agreed to write a play based on the lives of the Melungeons, a strange race of people living in our county. Volunteer labor went to work. After finding a site for the outdoor amphitheater they went out over the county dismantling old log buildings, bringing them to the site and reconstructing them. Our stage, seating, and all our buildings were done in this manner. The outdoor drama production was called "Walk Toward the Sunset." The cast involved the time of about forty local people each summer. Attendance was good for the first several years. This attendance was primarily from towns in the immediate area. These could drive back home at night. But as our drama became known far and near, people came from greater distances and they wanted motels and restaurants which we did not have and could not support without year around transit customers. Here is where the lack of highways came in - no through highway - no one goes through Sneedville going anywhere.

Some years ago, I would go on state sponsored industrial team trips trying to persuade industry to come to Hancock County. A good many of the industries that I called on seemed interested at first. They were especially interested in our union free labor force.

However, when we got around to the fact that we had no through highways, no railroads, no freight terminals, no bus lines, no navigable waterways,and no airport, they were no further interested. I still have letters in my files from industries who wanted to get back in touch with us if this situation ever changed. (See attached letter from Knitco Sportswear.)

These things are to emphasize the fact that the ARC program is not finished and should by no means be discontinued. By no means do I want to imply that Hancock County has not been helped because it most certainly has been. As a member of the Executive Committee of our Development District for thirteen years, I saw regionalism working and it was beautiful and inspiring. The problems for one became the problems for all, and we forged ahead. Yet it is not finished. The full potential of ARC investment in Hancock County can never be fully realized without a supplement to the greater investment that has already been made.

There was some concern at the Huntington Hearing as to why Hancock County was still lagging behind other areas in Appalachia with 62 percent of our people living on incomes below the poverty level. When the Appalachian Regional Development Act was passed Hancock County had received only one federal grant throughout its existence. This was a very small Hill-Burton grant on a hospital. Consequently, at the time the bill was passed, Hancock County was much further behind other areas in the region, many of whom had been receiving federal assistance all the while. In a mountainous area with a minimum amount of tillable farm land, suffering from isolation and lack of ready access, it has been impossible for Hancock County to compete favorably with other areas.

As I see it now we are at the crossroads. An enthusiastic progressive endeavor has been underway here, which definitely needs to be sustained. If it is not sustained our destiny is questionable.

Respectfully submitted,
Charles W. Turner
Sneedville, Tennessee

Telephone AM 7-4371

TONY PAPA, JR. • FRED J. COFER

New York Office:
10 WEST 33RD STREET
NEW YORK 1, N. Y.
Phone PENN. 6-2115-6

Knitco Sportswear, Inc.

Manufacturers of Sportswear

1806-12 ROSSVILLE AVE. CHATTANOOGA 8, TENN.

May 4, 1964

Mayor Charles Turner
Sneedville, Tennessee

Dear Mayor Turner:

This letter is in reference to our conversation we have had concerning our opening a factory in Sneedville, Tenn.

We have just opened a factory in Decatur, Tennessee and at the present time we do not feel Sneedville is good for us due to the fact of accessability.

If this picture changes in your town we would be interested for another factory at a later date.

Please keep us informed.

Thanking you for your past cooperation, we remain

Very truly yours,

KNITCO SPORTSWEAR, INC.

Fred J Cofer

Fred J. Cofer

FJC/rc

City of Sneedville, Inc.

P.O.Box 151, Sneedville, TN 37869 (615) 733-2254

Ray J. Campbell, Mayor
Lyle A. Mullins, Vice-Mayor
Jimmy G. Mathis, Councilman-Recorder
Steven E. Hopkins, Councilman
Ronnie Cantwell, Councilman
Carroll R. Odom, Councilman
Scott F. Collins, City-Judge
Charles Turner, Chairman-Planning Commission

February 28, 1985

Senator Jim Sasser
239-A Russell Senate Office Building
Washington, D. C. 20510

Dear Jim:

Attached herewith is a statement relative to the ARC hearing in Johnson City on February 15. I am sorry that I missed this hearing. We had so much snow here I may not have made it out anyway, but if I had been physically able I would have tried. ARC, as applied to our eight county development district, is comparatively of so much greater importance to us here. Therefore, it was of importance that our story be told. I wish I could have been there.

You are appreciated for what you are doing in support of ARC. This administration has defintely shown a lack of compassion for the people of Appalachia. They are long on words and short on doing. What we say is neither here nor there unless it is in agreement with our actions. Lincoln once said "People will little note nor long remember what we say here." I am proud that we have someone in Washington who has a capacity for compassion for the people of Tennessee who are eligible for ARC assistance. Knowing you I am sure you will continue in this effort. I have always been proud of you as our Senator.

After I returned from the Huntington hearing in January of 1982, I wrote Howard Baker and ask his support of ARC. His answer to my letter contained a statement as follows: "I am in basic agreement with the President that ARC has served its role and is one of the federal agencies which must be sacrificed in the budget restraining efforts. I continue to believe that an extended ARC phase out is not advisable nor required." Furthermore he suggested that many ARC functions could be picked up by state and local governments and private foundations, which as he said were better equipped to manage local needs. As for his reference to local governments, if we had the funds we would not be asking for help. We have been after the state since the bill passed pleading for one access road into Sneedville to be completed. As for the private foundations that he mentioned, I answered his letter and ask for the names of some foundations that would build some roads in Hancock County knowing, of course, there were none.

I have gone to Jimmy Quillen's "Open Door" meetings and taken along maps prepared by our local State Planning Office showing the proposed ARC roads in Hancock County. I have no knowledge whatsoever of any assist he ever gave us. All the time I was fully aware of the fact that he was far more interested in Appalachian Route U. S. 23 being four laned into Kingsport. When the question came up in Huntington as to why Hancock County was still lagging so far behind other areas in Appalachia, I could have given poor representation in Washington as one reason. Jim Cooper has already given more time to our ARC road situation than Quillen did during the whole time that he represented us.

Congressman Jim Oberstar was very nice to me at the Huntington hearings. I will never forget him. The others who testified during the morning session had written statements and stayed within their time limits. Not having a prepared statement I just kept going and went over my time. When I realized what had happened, I was obviously somewhat embarassed. At lunch break I went to Congressman Oberstar to apologize. He told me that they didn't want to stop me, because I was telling them what they wanted to hear. At this point he made some remarks that touched me deeply. I will never forget this man.

Thank you so much for coming to Johnson City to hear our story. I wish I could have been there.

Sincerely,

Charles

Charles W. Turner

CWT:ph

Attachment

APPALACHIAN REGIONAL COMMISSION
1666 Connecticut Avenue, N.W
Washington, D.C. 20235

January 22, 1982

Mr. Charlie Turner
Turner's Drugstore
Box 97
Sneedville, Tennessee 37869

Dear Charlie:

I want to add my personal thanks to you for appearing before Congressman Oberstar's subcommittee. Your statement was excellent. You made the case for the Commission's continuation.

We couldn't be more pleased.

Sincerely,

Jim

JAMES H. PICKFORD
Director
Planning and Coordination Division

JHP:pg

APPALACHIAN REGIONAL COMMISSION

OFFICE OF THE
STATES' WASHINGTON REPRESENTATIVE
1666 Connecticut Avenue, N.W.
Washington, D.C. 20235
202/673-7842

January 28, 1982

Honorable Charles Turner
Turner's Drugstore
Box 97
Sneedville, Tennessee 37869

Dear Mr. Turner:

On behalf of the 13 Appalachian Governors, I want to thank you for your outstanding and moving testimony at the hearing in Huntington on the ARC finish-up program.

Those of us in attendance were inspired by what you had to say, and I know that Congressman Oberstar was particularly moved by your testimony.

The strength of the ARC programs has always been the support of people like yourself. Your experiences are clear evidence that these programs have, indeed, made a significant difference in the Region.

With your continuing support, I am confident that these programs will continue to survive and effectively address health, employment, quality of life and other needs of the people of the Appalachian Region.

If I can be helpful to you, please let me know. I look forward to working with you in the future.

Sincerely,

Michael R. Wenger
States' Washington Representative

APPALACHIAN REGIONAL COMMISSION

OFFICE OF THE
FEDERAL COCHAIRMAN
1666 Connecticut Avenue, N.W.
Washington, D.C. 20235
202/673-7856

February 3, 1982

Mr. Charles Turner
Turners Drugstore
Box 97
Sneedville, Tennessee 37869

Dear Mr. Turner:

Congratulations on your excellent testimony before the House Public Works Subcommittee on Economic Development in Huntington, West Virginia.

Despite the fact that you were not feeling well, you made a superb presentation that was right on target. You dealt precisely with the problems the Committee was concerned about, dealt with them forthrightly and gave your own personal experience with clear authority that moved all who were there. I only wish the members of the Senate could have heard you in Huntington.

We all appreciate your testimony and a job very well done. Thank you and best wishes.

Sincerely,

ALBERT P. SMITH, JR.
Federal Cochairman

Industry Can't Get In

Hancock's No. 1 Need: Roads

By WILLARD YARBROUGH
News-Sentinel Staff Writer

SNEEDVILLE, Tenn., Feb. 25—Mayor Charles Turner took a deep sigh as he pondered Sneedville's "most pressing problem."

"We need industry in our county and in our town," the druggist said. "But we apparently can't get payrolls until we do something to attract them."

He recalled a conversation he had recently with Charles Pate, Knoxville, at the First Tennessee Economic Development District session in Johnson City.

LOST BIG INDUSTRY

"Pate asked me to list in 1-2-3 order our primary needs in Hancock County," Turner said. "I'm writing them this week and I know what No. 1 will be: New roads to open our county to industry."

Pate is East Tennessee coordinator for Uncle Sam's Economic Development Act and has been aiding eight upstate counties who have banded together to help the entire region.

Turner revealed a secret that townspeople won't know until they read this. Sneedville was on the brink of getting a big industry that would employ 800 persons.

"A Northern firm decided to expand in Appalachia, and was seeking a county that qualified as economically depressed," the mayor said.

"They flew down to Knoxville and then came here to look us over. This was in December and we held our breaths, thinking what a Christmas present this would be.

"We've got 500 people in Hancock County who want jobs and altogether, in counties adjoining Hancock, some 2500 persons have signed up for possible jobs.

"Well, we didn't get the big industry and a telephone call told us why: We simply don't have adequate access roads. This firm told us it could not compete because transportation costs would be too high."

Hancock has only one industry, the New Jersey Zinc operations that employs some 150 persons at Treadway. Cars line the roads outside town here, as workers meet for car-pools before driving into Morristown and Tazewell to out-of-county jobs.

ACCESS PROMISED

Hancock is awaiting work, promised last year, that will open up one major access road. This Appalachia access runs 18.1 miles from Sneedville to Mooresburg (U.S. 11-W) along State Highway 32. Appalachia Regional Commission, which had beer requested to map an Appalach ian road via Sneedville, las summer approved the access in stead.

The commission wrote tha rights-of-way and preliminar engineering should be completed during 1966, but officials her

have seen no evidence of th
They now are working thro
state officials to get the proj
under way this year.

Big tractor-trailer rigs ca
negotiate the major road i
Sneedville from Mooresbu
Hairpin turns have caused e
fertilizer trucks to tip over
curves and Hancock poul
raisers have lost market-bo
chickens the same way. The
cess road will permit he
traffic and accommodate he
vehicles. The cost will run
most $1,000,000.

38 FAMILIES CUT OFF

"Hancock's future depends
access roads," Turner said. "
can't begin to develop indust
parks, landing strips and s
until industry can drive to
door."

Civic and government offic
here believe the Appalachia
is on their side, in that the
says the intent is to open
areas where commerce
communication of people
people has been "sorely in
ited by lack of ready acce
and not to upgrade or exp
the most heavily traveled r
in the country.

Hancock County 8th Poorest in U.

News-Sentinel Washington Bureau

WASHINGTON, Dec. 10—
U.S. Department of Welfa
using 1960 Census figures,
identified Hancock County
East Tennessee as the eig
poorest county in the Uni
States in terms of cash inco
per family.

A special welfare report
ing the Census information
spot poverty areas notes t
median cash income per fa
ily in Hancock was only $1
ranking it eighth from the t
om.

Close to Appalachian System

Hancock Countians Suffer From Lack of Good Highways

By WILLARD YARBROUGH
News-Sentinel Staff Writer

SNEEDVILLE, Tenn., Dec. 19—Farmers in virtually-industry-less Hancock County were sold on the idea of raising capons for a ready market at such places as Morristown and Knoxville.

They did. They invested money in buildings and flocks. They raised thousands of chickens which they hoped would become their major cash crop.

cause theatergoers are concerned with roads that bring them here from outside.

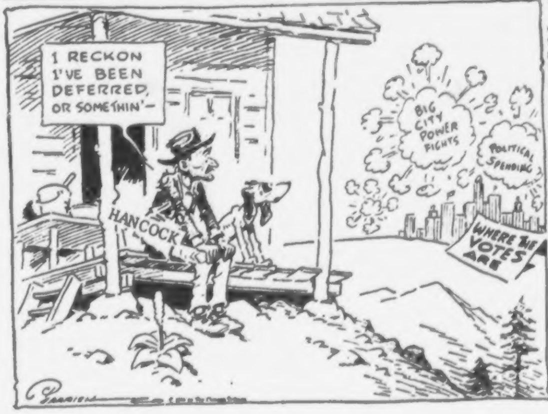
The Melungeons themselves, a people whose origin is lost to history and shrouded in myths, aren't too bothered by inadequate roads. Many never leave the county, anyway, and many others walk where they go.

Roads Worry Playgoers

New industrial locaters take one look at Hancock County's road system and go elsewhere. The brightest thing occuring here in recent years, the Melungeon drama, "Walk Toward the Sunset," has been troubled be-

One drawback was they couldn't safely transport them outside the county. One truck loaded with choickens spilled on Chestnut Ridge curve on State 31. The farmer was wiped out.

THE POVERTY WAR RAGES



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leaders ea-
program for com-
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things that ap-
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r the city and coun-
rth have been elimi-
a sewer system, im-
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are among the many
ams that have been com-
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county's population from
oming greater. Hancock
unty has lost substantial
pulation for the past two
ecades.

Turner as mayor of the city has represented Hancock County on several industrial team trips and presented his community's case to hundreds of firms across the nation. Dr. John Pearce, the community's only medical doctor, has accompanied Turner on many trips, and together they have logged several thousand miles of travel as well as spending hundreds of dollars of their personal resources.

CARTER COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1968	Elizabethton State Area Vocational Education	ARC	$ 144,000
	Blue Springs Utility District	ARC	28,000
1970	Carter County Memorial Hospital Addition	ARC	200,000
1971	Roan Mountain State Park Campground	ARC	64,000
	Elizabethton Vocational Technical School - Phase I	ARC	977,307
	Elizabethton Municipal Airport	ARC	14,263
1972	Elizabethton Street Improvements	EDA	496,000
	Community Day Care Center	ARC	25,470
1973	Johnson City - Elizabethton Access Road	ARC	890,170
	Elizabethton State Expansion	ARC	650,000
	Lynn Valley Equitie Processing Textile Fabrics (Loan)	EDA	700,000
1974	Community Day Care Center	ARC	16,000
1975	Elizabethton Vocational Technical School Revision	ARC	247,026
	Milligan College Renovation	ARC	247,026
	Community Day Care Center	ARC	15,294
	Elizabethton	HUD	645,000
1976	Community Day Care Center	ARC	25,236
	Elizabethton	HUD	645,000
1977	Milligan College Renovation	ARC	62,228
	Community Day Care Center	ARC	3,097
	Elizabethton	HUD	250,000
	Elizabethton	HUD	645,000
1978	Elizabethton	HUD	500,000
	Elizabethton	HUD	30,000
	Elizabethton	HUD	420,000
1979	Elizabethton Water System	ARC	500,000
	Carter County Comprehensive Health Care	ARC	75,000
	Elizabethton	HUD	500,000
1980	Sewer - Airport Industrial Park	ARC	100,000
1981	Elizabethton Housing Rehab	HUD	204,432
	Dam at Covered Bridge	HUD	70,000
1982	North Elizabethton Utility District	ARC	40,000
	Elizabethton Industrial Waste Pretreatment	CDBG	75,000

CARTER COUNTY (Cont.)

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1983	Elizabethton Industrial Park	CDBG	$ 500,000
1984	Carter County Water Improvement	CDBG	300,000

GREENE COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1966	Greeneville Municipal Airport	ARC	$ 53,247
	Greeneville Road to Industrial Park	EDA	101,000
	Greeneville Water System	EDA	761,000
1967	Greeneville Sanitary Sewers	EDA	41,000
	Greeneville - Franklin Furniture (Loan)	EDA	16,000
1968	Laughlin Hospital, Inc. Overrun	ARC	47,994
	Laughlin Hospital, Inc.	ARC	130,000
	Greeneville Sewage and Water	ARC	30,642
	Cherokee Hartshaw Sewage Facility	ARC	33,600
1969	Greeneville-Jarl Extrusions (Loan)	EDA	4,550,000
1970	Cherokee Hartshaw Sewage Facility Overrun	ARC	6,600
1971	Greeneville Industrial Park, Water, Sewer	EDA	179,000
	Greene County Area Vocational School	ARC	1,163,630
1972	Greene County Health Center	ARC	71,741
	Tusculum College Spec. Ed. Dem. Center	ARC	29,951
	Greene County Area Vocational School Overrun	ARC	132,252
1973	Maternal and Child Health Outreach, Delivery System	ARC	62,000
	Greene County Solid Waste Collection System	ARC	54,000
	Greene County Health Center Overrun	ARC	2,258
1974	Maternal and Child Health Outreach, Delivery System	ARC	50,215
	Greeneville Industrial Park, Water/Sewer	EDA	20,000
1975	Chuckey Water District Water System	ARC	50,000
	Maternal and Child Health Outreach, Delivery System	ARC	50,215
	Greeneville Water and Sewer System	ARC	91,250
	Greeneville Central Fire Hall	EDA	201,000
	Greeneville Curb and Gutter	EDA	276,000
	Greeneville	HUD	405,000
1976	Primary Care Outreach	ARC	50,175
	Greeneville	HUD	405,000
1977	Greeneville Water System Improvement	ARC	160,100
	Greeneville	HUD	405,000
1978	Greene County Industrial Park Sewage Facility	ARC	159,000
	Greeneville Sewer Extension	ARC	132,500

GREENE COUNTY (Cont.)

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1978	Greeneville	HUD	$ 766,000
	Greeneville	HUD	263,000
1979	Greeneville Water	ARC	89,400
	Greene County	HUD	500,000
	Greeneville	HUD	686,000
1980	Airport Improvements	ARC	500,000
1981	Mosheim Industrial Site	ARC	40,000
	Greeneville Airport Hangar	ARC	150,000
1982	Mosheim Sewer System	CDBG	405,000
1983	Greene County Coleman Company	CDBG	250,000
1983	Greeneville Wastewater System Improvement	CDBG	500,000
1984	Greeneville Water Tank Coleman Industries	ARC	150,000
1984	Greeneville Industrial Maintenance Vo-Tech School	ARC	50,000

JOHNSON COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1967	Johnson County Access Road	ARC	$ 774,111
1968	Mountain City Water & Sewer Systems	EDA	626,000
1970	Johnson County/Mountain City Hospital	EDA	403,000
1975	Johnson County Dental	ARC	21,283
1976	Mountain City Water Systems Improvements	ARC	258,000
	Johnson County Access Road	ARC	88,625
1979	Johnson County Industrial Building	HUD	500,000
1980	Mountain City Water	ARC	500,000
1981	Johnson County Industrial Park	ARC	318,521
1983	Johnson County (Industry)	CDBG	500,000
1984	Johnson County Wicker and Wood	CDBG	400,000
1984	Mountain City Wastewater Treatment Plant	CDBG	500,000

HANCOCK COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1967	Morristown-Rogersville Access Road	ARC	$ 1,095,247
1968	Sneedville Water/Sewer/Road to Industrial Park	EDA	98,000
	Sneedville Streets	EDA	80,000
	Hancock County Hospital	EDA	140,000
1969	Sneedville Streets	EDA	28,000
1970	Sneedville Community Center	ARC	12,600
1974	Hancock County Community Career Education Demonstration	ARC	13,010
	Hancock County Public Health Center	ARC	79,750
1975	Hancock County	HUD	66,550
1976	Sneedville Drama Site	ARC	100,000
1977	Hancock County Primary Care Center	ARC	47,200
1978	Hancock County Industrial Park/Water/Road Improvements	EDA	200,000
	Hancock County	HUD	500,000
1982	Hancock County Industrial Building	CDBG EDA	145,000 400,000
1983	Sneedville Wastewater Source Improvement	CDBG	322,740

HAWKINS COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1967	Hawkins County Nursing Home	ARC	$ 78,645
1968	Church Hill Sewage Treatment Facility	ARC	207,000
1975	Surgoinsville Dental Clinic (Loan)	FHA	30,000
1976-78	Phipps Bend Energy Growth Management	ARC	120,000
	Hawkins County	HUD	354,000
	Mt. Carmel Municipal Building (Loan)	FHA	160,000
1978	Hawkins County Water Line	ARC	150,000
	Hawkins County Dental Equipment	ARC	28,000
	Rogersville Fire Trucks (Loan)	FHA	70,000
	Hawkins County	HUD	100,000
1979	Rogersville	HUD	373,250
1981	Rogersville City Park	HCRS	107,790
	Rogersville Industrial Park	ARC	176,587
	Rogersville Neighborhood Revitalization	HUD	437,000
	Hawkins County Gas Line	ARC	41,307
1982	Strolee Industrial Site	ARC	418,800
1983	Rogersville Assured Casting Co.	CDBG	375,000

SULLIVAN COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1966	N.D.E.A.	ARC	$ 21,406
	Holston Valley Community Hospital	ARC	103,631
1967	Bristol Memorial Hospital Addition	ARC	120,934
	N.D.E.A.	ARC	26,136
1968	Tri-Cities St. Area Voc. Education	ARC	256,000
	Bristol Sewage Treatment	ARC	36,329
1969	Tri-City Airport	ARC	7,792
	Bristol Memorial Hospital Overrun	ARC	19,066
	Wilcox Hall Nursing Home	ARC	52,534
1970	Warrior Path State Park	ARC	41,350
	Bristol, TN Sewer Line	EDA	440,000
1971	Tri-Cities St. Regional Voc.Tech. School Equipment	ARC	140,000
	Tri-City Airport Apron Extension Overrun	ARC	12,340
	Tri-City Airport Apron Extension	ARC	15,600
1972	Tri-City Airport Safety Improvements	ARC	89,490
1973	Holston Valley Community Hospital	ARC	264,422
	Tri-City Airport Apron Extension, State II	ARC	198,600
	Tri-City Airport apron Extension, State I	ARC	20,400
	Tri-City Airport Land Acquisition	ARC	200,000
	Tri-City Airport Overrun	ARC	8,850
	Bristol Mental Health Center	ARC	6,189
	Tri-Cities St. Regional Voc. Tech. School	ARC	700,000
	Bays Mountain Environmental Education Center	ARC	41,190
	Tennessee Appalachian Nurse Midwifery and Child Development	ARC	48,000
1974	King College Science Building	ARC	925,335
	Tennessee Appalachian Nurse Midwifery and Child Development	ARC	48,000
1975	Bristol Mental Health Center	ARC	5,013
	King College Science Building Overrun	ARC	223,756
	Tri-City Airport	ARC	144,736
	Bays Mountain Environmental Laboratory	ARC	39,700
	Bristol Water Supply	ARC	625,000
	Tennessee Appalachian Nurse Midwifery and Child Development	ARC	48,000
	Kingsport	HUD	677,000
	Sullivan County	HUD	227,000
	Bristol	HUD	36,500

Fact Sheet

Tri-City Airport

In 1935, the mayors of Johnson City, Kingsport and Bristol, Tennessee and the judge of Sullivan County recognized the advantages of a joint airport facility and thereby entered into an agreement to construct such a facility. In 1948 Washington County decided to participate in the proprietorship of the airport and in 1964 Bristol, Virginia also entered into an agreement with the owners of the Tri-City Airport.

Since that date, Tri-City Airport has undergone several major changes that have had a positive impact on the entire region. The Appalachian Regional Commission (ARC) has granted construction funds to the Tri-City Airport Commission on ten separate occasions since 1969. The following is a listing of the Tri-City Airport projects that have been assisted with ARC funds:

FY	Project	Total Cost	ARC Grant
1969	Tri-City Airport	$ 38,960.00	$ 7,792.00
1971	Airport Apron Extension	156,000.00	15,600.00
1971	Airport Apron Extension Overrun	123,400.00	12,340.00
1972	Airport Safety Improvements	298,300.00	89,400.00
1973	Airport Apron Extension State I	68,000.00	20,400.00
1973	Airport Apron Extension State II	662,000.00	198,600.00
1973	Airport Land Acquisition	743,000.00	200,000.00
1973	Airport Overrun	29,500.00	8,850.00
1975	Airport	1,322,499.00	144,736.00
1978	Airport Hangar	400,000.00	200,000.00
	Totals	$3,841,659.00	$ 897,808.00

SULLIVAN COUNTY (Cont.)

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1976	Tennessee Appalachian Nurse Midwifery and Child Development	ARC	$ 43,200
	Kingsport	HUD	677,000
	Bristol	HUD	386,000
1977	Bristol Water System	ARC	500,000
	Tennessee Appalachian Nurse Midwifery and Child Development	ARC	83,260
	Sullivan County	HUD	350,000
	Bristol	HUD	424,000
	Kingsport	HUD	677,000
	Parent-Child Pediatric Language Program	ARC	25,000
1978	Kingsport Regional Service Park	ARC	500,000
	Tennessee Appalachian Nurse Midwifery and Child Development	ARC	74,934
	Tri-City Airport	ARC	200,000
	Bristol	HUD	68,000
	Kingsport	HUD	623,000
	Bristol	HUD	378,000
1979	Tri-Cities Technical Institute Expansion and Improvements	ARC	500,000
	Sullivan County	HUD	380,000
1980	Increase in 1978 Grant	ARC	118,067
1981	Long Island Housing Rehab	HUD	418,000
	Tri-County Industrial Park (Sewer)	ARC	124,320
1982	Bristol CDBG East State Street	HUD	408,000
	Kingsport CDBG Nelsontown	HUD	513,000
	Bluff City Housing Rehab	CDBG	477,000

UNICOI COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1966	Access Road Big Bald Mountain	ARC	$ 21,000
1967	Unicoi County Health Center	ARC	21,000
1968	Unicoi County Nursing Home	ARC	48,750
	Unicoi County Health Center Overrun	ARC	9,840
1970	Unicoi County Area Vocational Education	ARC	589,500
1973	Unicoi County Area Vocational Education Overrun	ARC	11,250
1975	Unicoi County/Erwin Remodel Hospital	EDA	500,000
1980	Industrial Park (Old U.S. 23)	ARC	200,000
1981	Riverview Industrial Park	ARC	375,000
1982	Erwin Water System Improvement	CDBG	250,040

WASHINGTON COUNTY

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1966	East Tennessee State University Library	ARC	$ 339,911
	N.D.E.A.	ARC	6,657
	N.D.E.A.		11,888
	Range Hall Nursing Home	ARC	45,630
1967	East Tennessee State University Classroom	ARC	304,831
1968	East Tennessee State University Science Bldg.	ARC	114,000
	East Tennessee State University Health Bldg.	ARC	200,000
	East Tennessee State University Student Services Building	ARC	300,000
	Industrial Park Water & Sewer and Roads	EDA	1,885,000
1969	Johnson City Area Voc. Ed. High School	ARC	825,000
	Johnson City Sewage Facility	ARC	200,000
1970	Johnson City Mental Health Center	ARC	40,040
1971	Washington County Area Voc. Ed. Equipment	ARC	161,940
	Dawn of Hope Center	ARC	17,500
1972	Johnson City Mental Health Center Overrun	ARC	16,405
1973	Washington County Solid Waste	ARC	54,000
	Areawide Comprehensive Health Planning	ARC	37,703
1974	Johnson City Health Center	ARC	192,500
	Jonesboro Historical Restoration	ARC	60,000
	Johnson City Water System, Phase I	ARC	213,750
	First Tennessee-Virginia Cable TV Demonstration	ARC	78,594
1974-77	Upper East Tennessee Ed. Co-op.	ARC	180,526
	Upper East Tennessee Ed. Co-op.Planning	ARC	43,700
1974-75	Tenn. Appalachian Nurse-Midwifery	ARC	96,000
1975	Johnson City Water System, Phase II	ARC	363,900
	East Tennessee Medical School Planning	ARC	250,000
	Johnson City	HUD	1,142,000
	Jonesboro	HUD	25,000
1976	Jonesboro Historical Restoration Overrun	ARC	25,000
	ETSU Family Practice Residency Program	ARC	400,000
	Johnson City	HUD	1,142,000
	ETSU Medical School Continuing Med.Education	ARC	
1977	ETSU Family Practice Residency Program	ARC	200,000
	Johnson City Regional Wastewater	ARC	500,000
	Johnson City Health Center	ARC	111,100
	Jonesboro	HUD	184,000
	Johnson City	HUD	1,142,000

WASHINGTON COUNTY (Cont.)

FY	PROJECT	FUNDING SOURCE	GRANT AMOUNT
1978	FT-VDD Local Government Structures & Decisions Making Study	ARC	$ 24,966
	Johnson City	HUD	1,019,000
1979	Jonesboro Multi-Purpose Center	ARC	500,000
	Jonesboro	HUD	398,900
1980	Industrial Park	ARC	500,000
1982	Johnson City CDBG State of Franklin Road	HUD	794,000
	Jonesboro Housing Rehab	CDBG	150,000
1984	Johnson City Industrial Park Power Line Relocation	ARC	59,500

Fact Sheet

East Tennessee State University

East Tennessee State University opened in 1911 as a two year teachers institution. Today, the enrollment reaches to 10,000 students from all over the United States and 36 foreign countries, offering undergraduate, master's and doctorate level degrees.

The University is organized into four colleges, four schools and one division, i.e. the Colleges of Arts and Sciences, Business, Education and Medicine; the Schools of Nursing, Public and Allied Health, Allied Science and Technology and Graduate Studies and the Division of Extended Services.

The most recent college added to the University is the College of Medicine. From 1975 through 1977, the Appalachian Regional Commission (ARC) granted over $1.1 million for the renovation of buildings to be used as laboratories, classrooms and the construction of the Family Practice Center for the ETSU College of Medicine.

Earlier in the late 60's, ARC participated in the construction of four buildings: the library, the science building, the health building and the student services building as well as an addition to an existing building.

The following is a listing of the ETSU projects that have been assisted with ARC funds since 1966:

FY	Project	Total Cost	ARC Grant
1966	Library	$ 1,999,303	$ 339,911
1967	Classroom	1,880,616	304,831
1968	Science Building	3,279,096	114,000
1968	Health Building	1,612,645	200,000
1968	Student Services Building	1,699,751	300,000
1975	Medical School Planning	707,244	250,000
1976	Family Practice Residency Program	1,050,376	400,000
1976	Medical School Continuing Medical Education	335,331	250,000
1977	Family Practice Residency Program	1,794,635	200,000
	Totals	$14,358,997	$2,358,742

IMPACT OF ECONOMIC AND COMMUNITY DEVELOPMENT BUDGET CUTS

SATURDAY, MARCH 2, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Memphis, TN.

The committee met at 2 p.m., in room 800, Mid-Memphis Tower, Hon. Jim Sasser presiding.

Present: Senator Sasser.

Staff present: Lance Simmens, legislative assistant.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Let us get underway here. First, there are two lessons I have learned here today. They are never have a hearing on a pleasant Saturday afternoon in Memphis, and when Memphis State University is playing basketball because you are liable to have a very sparse crowd.

Let me thank all of you for participating in this hearing today. This is the fourth in a series of hearings that I have been conducting across the State under the auspices of the Senate Budget Committee to examine the impact of the administration's budget proposals on the Tennessee economy.

We have held hearings in Chattanooga, in the Tri-Cities, in Nashville and here today in Memphis.

We want to focus on the impact of the proposed economic and community development budget cuts here on the city of Memphis and the county of Shelby.

Now, the President submitted his budget nearly a month ago. It was billed as a deficit reduction package. In actuality, however, the budget merely stabilizes deficits over the next 5 years at a level of $186 billion annually.

DEFICITS REACHING CRITICAL AND CATASTROPHIC PROPORTIONS

So clearly we can see that the magnitude of these Federal budget deficits cannot be overstated and are reaching critical and catastrophic proportions. The Congressional Budget Office released a report just this week which shows that if the administration's budget, with all of the budget cuts that are being proposed, should become law, that interest payments on the national debt will grow from a projected $130 billion this year to over $212 billion by the end of the decade. Interest on the national debt is the fastest growing component in the Federal deficit.

Now, if it continues to grow, if interest continues to grow at the rate it is presently growing, that means that by 1990, the interest on the national debt will be $50 billion more than spending on all the discretionary programs, including mass transit, housing, energy, community and economic development, and on and on.

Well, these numbers are depressing enough, but these coupled with our trade imbalance of some $123 billion last year alone, and projected to go higher in the coming years, cast, I think, serious doubt on this economy's ability to sustain continued economic growth throughout the end of this decade and into the next.

Defense spending is slated to increase by an additional $195 billion over the next 5 years, $31 billion in this next year alone. Other spending is expected to absorb $331 billion in spending cuts. Grants to State and local governments would be cut by roughly $105 billion over this period.

ELIMINATION OF SOME PROGRAMS PROPOSED

Proposals to eliminate programs like the Small Business Administration, the Economic Development Administration, urban development action grants, general revenue sharing, and a 25 percent cut in community development block grants may hinder the efforts of local communities to attract investment and to enhance economic development. The loss of these funds, as well as the abandonment of the critical concept of public/private partnership, will hamper Memphis' competitiveness vis-a-vis other cities.

I have just taken a tour of much of the downtown area of Memphis and seen what this public/private partnership has done over the past 6 or 8 years.

Here in Memphis, the public/private cooperation through the Small Business Administration and the Economic Development Administration, as well as others, has produced the Peabody Hotel and the Orpheum Theater, and the Beale Street Project, just to name a few. Mud Island is also a project that has some Federal funding in it and represents a partnership between the local government and the Federal Government.

A two-thirds cut in urban mass transit funding will most assuredly lead to increased bus fares here in Memphis and decreased bus service. We are going to hear more about that from one of our witnesses here today.

A $3 million cut in community development block grant funding for Memphis will most assuredly lead to exacerbation of the current housing problem that exists here in Memphis.

I might say that over the past 6 years, the Economic Development Administration has infused over $8.5 million in technical assistance, planning grants and development finance assistance in the city of Memphis.

TRY TO SALVAGE PIECES OF SOME PROGRAMS

We are all concerned about the problem of the massive Federal budget deficit. We all realize that something simply must be done about it. But in looking at these spending cuts, we need to, I think, take a realistic, practical and pragmatic approach to it and try to salvage at least bits and pieces of those programs that have been doing a good job and not just engage in a wholesale slashing and cutting and perhaps throwing out the baby with the bath water.

So I look forward to hearing from our witnesses here today.

Our first witness is the general manager of the Memphis Area Transit Authority, Mr. Hufnagel.

Mr. Hufnagel, will you please come forward and give us the benefit of your views.

Mr. Hufnagel is presently the general manager of the Memphis Area Transit Authority. Prior to this, he served as deputy general manager of the Queen City Metro in Cincinnati, OH. He has had over 10 years of experience in public transportation and has served as director of marketing for the Indianapolis Public Transportation Corp., as well as the Manager of RCA's Marketing Service Administration.

He serves on various committees for the American Public Transit Association. He serves on the Convention of Visitors Board of Directors here in Memphis, on the Center City Commission, and the Cotton Council Advisory Committee, and he serves on the Board of Trustees of Memphians for Economic Growth.

Mr. Hufnagel, we welcome you here today.

I will tell you, for your benefit and that of the other witnesses, your testimony here today will be transcribed and used in the deliberations of the Senate Budget Committee.

You may proceed. And I welcome you.

STATEMENT OF MICHAEL HUFNAGEL, GENERAL MANAGER, MEMPHIS AREA TRANSIT AUTHORITY

Mr. HUFNAGEL. Senator, on behalf of the Memphis Area Transit Authority Board of Directors, I would like to thank you for giving us the opportunity to relate to you the effect of the administration's budget proposal.

PUBLIC TRANSIT SYSTEM LIFELINE BEING THREATENED

If President Reagan succeeds in his proposed budget cuts, at best only the skeleton will remain of an efficient and effective public transit system that now serves Memphis. In 1986, Memphis will no longer have bus service during midday, no buses will run at night or on Saturday and Sunday. Morning and evening peak service will be reduced. Handilift vans will no longer serve the elderly and handicapped. Fares will dramatically increase. Discounted fares will be eliminated for students, as well as the elderly and handicapped, who are dependent on public transportation to get to school or to medical appointments.

Retailers will suffer because customers will simply not be able to patronize their businesses; commerce and industry will suffer as many transit dependent workers will be unable to find transportation to and from their jobs; students will be unable to use public transportation to get to school; hospitals and inner city businesses will be especially affected because of the large percentage of their workers who ride MATA buses.

The poor, the elderly, the handicapped will be hardest hit by such service reductions.

If the bleak scenario sounds familiar, it is because you have heard it before. Public transportation in Memphis has taken its lumps during the decade of the eighties. Because of earlier cutbacks in funding, service to Memphians was drastically reduced in 1982. In fact, service was reduced by 45 percent and fares were increased by more than 20 percent. MATA was forced to cinch its belt and tighten its purse strings in order to survive. Although thanks to funding from the city, some service has since been restored, MATA is currently operating at a very basic, barebones level.

Fiscal austerity is already a way of life for MATA. The Federal lifeline of operating assistance has kept the system afloat and now that lifeline is being threatened. Because we are operating more efficiently than ever before, if that lifeline is severed, there will be no way to absorb a reduction such as that proposed by President Reagan and still be a viable force in the Memphis economic community.

FINANCIAL REALITIES

The financial realities are these:

MATA currently receives approximately $4.2 million or 27 percent of its operating budget from the Federal Government. State and local governments contribute 28 percent. The balance of approximately 50 percent is received from the user of the service.

The President is proposing a total reduction of MATA's Federal operating funds of $4.2 million or 27 percent of MATA's operating budget.

The State and local governments will not be able to compensate for transit's losses along with other budget reductions proposed by the administration without a massive tax increase which is not a reasonable alternative.

An increase in fares is not an option for a city which already charges one of the highest fares in the country to its riders, approximately 60 percent of whom live in households where the annual income level is less than $10,000.

Therefore, faced with these financial realities, a loss of Federal dollars would result in decreased service, fewer riders and a reduction in farebox revenues, compounding the effect of the Federal cutbacks.

If the President's budget proposal is enacted, MATA will be able to provide only a fraction of the more than 15 million trips which are now made on public transit in our city each year.

PUBLIC TRANSPORTATION CUTS UNREASONABLE AND UNFAIR

It is not that we oppose the President's attempt to decrease the Federal deficit. In fact, we realize that it is necessary. We do, however, think that public transportation is being asked to bear an unreasonable and unfair share of that burden.

While the Federal deficit has risen $65 billion since 1981, transit funding has decreased by 16 percent. In the administration's proposed 1986 budget, 0.3 percent is earmarked for public transit. However, transit is being targeted for 5.5 percent of Reagan's overall cuts. Proposed cuts for transit are disproportionately larger than transit's share of the budget.

Incidentally, if you are wondering about highways, they are recommended for no cuts versus transit's 70 percent cut. There is no question that a greater burden is being placed on public transit dependent citizens. We do not believe that is a reasonable sharing of the burden.

Public transportation in general and MATA in particular are at a crossroads. Yes, we have had ups and downs. We have experienced great growth and we have been stagnant. But now we have a choice to make. In one direction, transit can serve as one of the city's greatest assets in economic development, moving people from point to point and leading economic growth, employees to jobs, students to schools, patients to our great medical institutions, and customers to retailers.

Or we can take the other path and allow public transportation to die. We can accept the catastrophic consequences of unemployment, decreases in retail sales, isolation of downtown, barriers to the elderly and handicapped.

I do not think that any of us want to travel that road. What can Congress as our representative do to avoid this route?

PRESERVE CURRENT LEVEL OF PUBLIC TRANSPORTATION FUNDINGS

We ask that you work to preserve the current level of fundings to public transportation. We are not asking for an increase, only maintenance level funding to allow us to do the job so desperately needed in our city.

There is little doubt that transit service generates substantial business, increased property values, and attracts millions of dollars in new investments in our community. It is of utmost importance that we preserve this crucial service to help Memphis realize its true potential.

Thank you.

MEMPHIS TRANSIT FARES ONE OF THE HIGHEST

Senator SASSER. Thank you very much, Mr. Hufnagel.

You said that Memphis is now charging one of the highest transit fares in the country.

What does it cost to ride a bus here in Memphis?

Mr. HUFNAGEL. The basic fare is 85 cents. Most of our riders have to transfer because of the route structure, and that is a 10 cent charge. So, 95 cents is what most of our riders are paying already.

Senator SASSER. Is there any practical alternative to Federal subsidies here? That is, can State and local governments pick up the slack if the Federal funding is reduced?

Mr. HUFNAGEL. We do not believe so because we have a very, very high sales tax already in this community. And we also have the property tax base as the only alternative.

If other cuts are made that affect the city in any way, they will have to look to only that property tax as a way of offsetting those cuts.

Senator SASSER. How high do you anticipate that bus fares would go here if the Federal operating subsidy is eliminated?

HIGHER FARES WILL REDUCE RIDERSHIP

Mr. HUFNAGEL. If we had to replace the whole Federal subsidy with just fares, we would be at around the $2 area per rider. We would more than double the fares because, as you increase fares, you lose ridership, and especially in this market where, as I say, better than 60 percent of our ridership has household incomes of less than $10,000.

Senator SASSER. If you raise the bus fare to $2 per ride and 60 percent of your ridership has a household income of less than $10,000, what happens to your ridership?

It appears to me that the ridership simply dries up because they cannot afford to pay a $2 bus fare. And then the bus system itself starts to dry up.

Mr. HUFNAGEL. That is correct. That is exactly what would happen. It would be the old syndrome that happened in the fifties and sixties with transportation in that the private operators of the system had to increase fares which cost them ridership. And as the ridership went by the wayside, they had to increase fares more. It was a continuing spiral. And that is exactly the reason that transportation today is a public transportation system.

BUS SYSTEM SHUTDOWN WOULD HURT DOWNTOWN MEMPHIS

Senator SASSER. What happens to downtown Memphis if your bus service is seriously curtailed or if the bus system simply ceases to exist?

Mr. HUFNAGEL. Senator, I guess the best way to answer that would be to relate some figures from a study that was done a little over 2 years ago of the downtown merchants.

In that study, the question was asked what would be the effect on your business if the bus system would shutdown?

Seventy-seven percent of those businesses in the CBD said that over half of their customers came by bus. And 70 percent said their sales volume would decrease by over 25 percent. Forty-two percent said that their sales volume would decrease by over 50 percent.

Ten percent of the medical center employees depend on MATA to get to work. Sixty-four percent of retail business employees use transit to get to their jobs. Over one-third of the downtown business employees expect to be laid off if the transit system should be shutdown. And overall, throughout the community, we estimate that there would be close to 3,000 jobs lost in this community. That exceeds any plant shutdown that has been heretofore.

Senator SASSER. It appears to me, judging from your testimony here today, Mr. Hufnagel, after all of the energy and funding, and there has been a substantial amount of funding going into rebuilding the downtown area of Memphis and attracting businesses back to that area, and attracting people back to the downtown area for the purposes of making it their residences, that we would simply be dealing a very serious blow, and maybe even a death blow, to the redevelopment of downtown Memphis if the bus system gets in serious difficulty here.

Mr. **Hufnagel**. We believe that is true in that the current revitalization that is going on in the downtown area and the tremendous impact that we are trying to make with the tourism market and everything else, without the mass transit system, there would be no way that they could survive in the downtown area because we just cannot handle that many automobiles with people coming into those revitalized areas. We have to bring them in by mass transit.

Senator **Sasser**. Would it be a fair characterization if someone said if we lost our mass transit system or if mass transit were seriously curtailed, that downtown Memphis would become a ghost town? Is that a fair representation?

OVER 55,000 A DAY USE MASS TRANSIT TO DOWNTOWN AREA

Mr. **Hufnagel**. We carry over 55,000 people a day. And those people represent in the area of 20 or 25 percent of all of the workers and everybody in the downtown area. So it would have a dramatic impact on the downtown activities. Those people would have to find a job where they could get transportation to or that was within walking distance of where they lived.

Senator **Sasser**. I am amazed that you carry 55,000 people to downtown Memphis every day.

One figure that sticks in my mind is that 38,000 people a day are transported between the Washington area and New York City by Amtrak. So you carry more people on your mass transit system here in Memphis to downtown Memphis, almost 20,000 more, than are transported back and forth between Washington and New York on a daily basis by Amtrak.

Mr. **Hufnagel**. That is correct.

MASS TRANSIT SYSTEMS CANNOT SURVIVE WITHOUT SUBSIDIES

Senator **Sasser**. That is a very, very impressive figure.

Well, I must say that I find your testimony here today surprising and shocking. I was not aware that the transit system would be dealt such a serious blow by the curtailment of Federal funding here.

The history, I suppose, of Federal operating subsidies for mass transit systems like the Memphis system, is that it simply could not survive initially without some sort of subsidy. In other words, as you were saying, the initial reaction was to raise fares, and this shrunk your ridership, and you raised fares more. This was back in the days when it was self-supporting.

Mr. **Hufnagel**. That is correct, Senator. The marriage with the Federal Government and public transit took place over 25 years ago.

At that time, there was testimony as to how important public transportation was to the backbone of all the communities throughout the United States that depended on public transportation.

Senator **Sasser**. We would like very much to get back to the days when mass transit would be self-supporting.

Do you see any hope of that in the immediate future or even in the distant future?

Mr. HUFNAGEL. No, I do not, Senator. It is a public service just like the fire and police. It adds an amenity to a community that draws other economic developments into a community.

One of the top three things a business usually inquires about when it is looking to a community is public transportation. And we do not see where that could ever be cost accounted on a car ride basis. It is a community effort.

AUTOMOBILE COMPETES WITH MASS TRANSIT

Senator SASSER. Let me ask you a question here just for my own information.

What happened to mass transit that made private funding not adequate to support mass transit?

Mr. HUFNAGEL. Well, we have a competitor and that is the automobile. There was a tremendous amount of money put into the infrastructure of communities to ease of utilizing the automobile over and above mass transit.

Back in the forties and the fifties when mass transit was really carrying a lot of people. All those jobs were located in the downtown area. And there was not a lot of highway structure to support the automobile. Today, that is not the case. But the need for public transit, the same basic reasons that were there before, are still there today, although we have created this other infrastructure. That is a very expensive infrastructure also to maintain. And the highway system does not pay for itself. It is subsidized quite heavily.

Senator SASSER. I want to thank you for appearing today and giving us the benefit of your views.

I might say that in our series of hearings, you are the first transit official we have had testify. I daresay that your comments as to the adverse impact that the budget cuts would have on the Memphis Transit System carry over also to the Nashville Transit System, to the Knoxville Transit System, and to all cities roughly the same size as Memphis all across the country.

We are not alone here in this country in subsidizing mass transit, as you know.

I had the occasion to meet with some members of the Japanese Diet, the Japanese legislature, just a few weeks ago. And one of the largest items in the budget of the Japanese Government is the subsidization of their mass transit system. They need to move great volumes of people back and forth from home to workplace and back, and they do it primarily through mass transit.

Mr. Hufnagel, thank you very much for appearing today. We are grateful that you came here.

Our next two witnesses—we will have a panel consisting of Mr. John Dudas, who is currently the executive director of the Center City Commission, and Mr. Frank Gianotti. Mr. Gianotti is currently president and chief executive officer of Allen & Hoshall, Engineers.

Mr. Gianotti is representing the chamber of commerce today. He is currently the vice chairman of the board of the Memphis chapter.

Mr. Dudas and Mr. Gianotti, we welcome you here today.

I might say, by way of introduction of these witnesses, Mr. Dudas, prior to his present position as executive director of the Center City Commission, he served as assistant chief administrative officer for the city of Memphis. He was the first manager of the city's policy planning and analysis bureau. He has also served in the city manager's office in Dade County, FL.

He received his bachelor's degree from the University of Notre Dame, and his master's degree from the University of Miami, both in urban studies and planning.

Mr. Gianotti is a native Memphian. He received his bachelor's degree in engineering and a master's degree in environmental engineering from the University of Tennessee.

Gentlemen, we welcome you and we look forward to your testimony.

Why do we not start with you first, Mr. Dudas.

STATEMENT OF JOHN DUDAS, EXECUTIVE DIRECTOR, CENTER CITY COMMISSION

Mr. Dudas. Thank you, Senator.

I do appreciate the opportunity to come here this afternoon to speak about this very important subject.

What I would like to do is address three areas in my remarks.

First deals with the current and past use of Federal funds and Federal assistance in the redevelopment of downtown.

Second, the discussion of why assistance is necessary.

And, finally, why continuing redevelopment of the center city of Memphis is important to the vitality of the entire region.

PHILOSOPHY BEHIND USING FEDERAL FUNDING ASSISTANCE

Historically, the philosophy behind using Federal funding assistance in downtown redevelopment was based on the fact that the primary responsibility for the redevelopment of the center city was with the private sector and remains with the private sector. We have felt that the private sector should take the lead. However, the public sector needs to become involved to fill certain gaps that were evident in this redevelopment process.

The gaps are not filled with cash grants, but under a system of loans that are repaid with interest, primarily to the city, and they are used to create additional jobs.

Second, loan guarantees that cover private funding from private lenders to a particular project.

Third, income tax exemptions on certain loans from private lenders to private developers in order that the interest rate might be lower.

Also, we find that Federal funds are provided for urban redevelopment in the form of grants to cities for public improvement. These, of course, create a proper environment to enhance the areas as well as investment employment for the private sector.

Although it is not the purpose of this hearing to discuss the income tax aspect, however, the investment tax credits have been very important also in terms of encouraging and sustaining the redevelopment of the center city.

Some examples of these tools as they were used in center city Memphis, I think, might be appropriate at this time.

INTEREST-BEARING LOANS

We find the interest-bearing loans which I mentioned earlier which have come from the community development block grants program, urban development action, the EDA primarily have been used in the form of second mortgages. They have been renovating vacant buildings in the downtown area, adapting them into attractive housing units; buildings such as the Shrine Building, River Row, the Court Square South, the Linden Plaza Project, and many others.

Also we have seen second and third mortgages on critical commercial and hotel projects, using a very similar mechanism. The sources are the same, CDBG, Urban Development Action Grants, the Economic Development Administration. These have resulted in the production of projects such as the Peabody Hotel, the Benchmark Hotel and Beale Street Landing.

LOAN GUARANTEES

The next category is the loan guarantees, which has been provided primarily from the Economic Development Administration, and has been used in the Peabody Hotel and Beale Street Landing.

INTEREST RATE SUBSIDY

I mentioned earlier the interest rate subsidy aspect of public assistance. Once again, this is not the specific purpose for the hearing, however, I think it is important to mention that this has been implemented through the Industrial Revenue Bond Program that has been viable in our particular redevelopment history here, and we have used it in projects such as the new Convention Center Hotel, One Union Place Office Complex, the Shrine Building and many, many others beyond that.

DIRECT GRANTS

Also, direct grants have been very important to the improvement and redevelopment of downtown. They have been used through the local government structure, through the city primarily, to make public improvements to the right of way in conjunction with private investment. They have originated, primarily, from the Economic Development Administration, from the Community Development Block Grants and also the Urban Mass Transit Administration.

Examples of that would include the Beale Street project, Cotton Row, Madison Avenue, and many others.

Just to give you a summary of these programs, the Community Development Block Grants, just now in the center city downtown, have involved close to $6 million; the Economic Development Administration, approximately $13 million; Urban Development Action Grants, $25 million, and UMTA [Urban Mass Transit Administration], about $250,000. And as an additional item here, it is important to point out that the revenue bond program has contributed in the form of this subsidized financing $43 million through our redevelopment program.

WHY PUBLIC ASSISTANCE IS NECESSARY

The second question is why is public assistance necessary to redevelop the center city area?

There are several reasons for this. First of all, there is a perceived risk of developing in an area that was recently depressed. Second, the land costs are higher than other locations; also the cost for preparing the site is more difficult and more costly. You have additional clearance involved and other very complicated subterranean situations in a downtown setting. It is more difficult to stage for construction in that area. And, of course, probably the most important of these ingredients is the question of parking. It is more difficult to provide parking in a downtown setting because it has to be structured, which automatically increases the cost.

A good example of where Federal assistance has been requested and is vital is the Peabody Place project. And one of the primary reasons is the need to provide parking to serve that project.

Now, one thing I should point out, Senator, is that the city and the State, Memphis, Shelby County, and the State have also been providing assistance to the redevelopment of our center city. We have not simply depended on the Federal Government. State funds have been directly injected into projects. The city has been using general obligation bonds for public improvement as well as operating funds for our particular office. So the Federal and local and State partnership has been working together hand in hand to redevelop the area.

WHY REDEVELOPMENT OF THE CENTER CITY IS IMPORTANT

Finally, why is the redevelopment of the center city important to the entire region?

Several reasons. The primary one would be the question of jobs. As has been pointed out earlier, we have a considerable workforce downtown. One out of every five Memphians work downtown or in the medical center, in what we call the center city area. What is really important to note is that this area is within walking distance of a significant group of individuals, families, who are unemployed or underemployed. And we have probably the most dramatic opportunity for this segment of our population in this particular area.

The redevelopment, the construction projects alone, have generated over 17,000 jobs in the last 8 years. And so many of these positions have been available to the segment of the population that has been in the greater need.

The redevelopment of our center city attracts new businesses into Memphis. It attracts visitors to Memphis, which I know will be discussed in greater detail later. Downtown is the primary tourism center of the community. And this obviously leads to more jobs and additional investment. It provides amenities. It improves the quality of life in our community. And, finally, it creates a progressive image for our city which, in turn, draws more visitors, businesses and residents to our community.

Thank you.

COMMUNITY WOULD SUFFER IF MASS TRANSIT SYSTEM WERE CURTAILED

Senator SASSER. Thank you very much.

Let me just ask one or two quick questions.

You have heard the description of what would occur if mass transit subsidies were cut. Would you agree that downtown Memphis would suffer if the mass transit system were sharply curtailed?

Mr. DUDAS. I think the entire community would suffer as a result of the curtailment of the mass transit system. Downtown historically has depended on that system more than perhaps any other area in terms of sources of trips to work, to employment downtown and, as a result, would have a disproportionate sacrifice to make if the transit system were curtailed a day.

DOWNTOWN PROGRESS NOT POSSIBLE WITHOUT FEDERAL PROGRAMS

Senator SASSER. I was going through some of the downtown area today. You were kind enough to take me around and show me the various projects.

The progress in the downtown area of Memphis has been truly remarkable since 1977 or 1978. I think there has been more progress and work done in downtown Memphis than certainly any city in the State of Tennessee, and perhaps almost any city across the country.

Would that have been possible, in your judgment, without a number of these Federal programs that we are discussing here today, such as EDA grants, UDAG and others?

Mr. DUDAS. I think it is commonly perceived that the Peabody Hotel was the catalyst that led to the progress that we have seen to date with downtown Memphis. And that project would not have gone forward, in my opinion, and I think in the opinion of quite a few other people, without the guarantee that the EDA provided on the loan, and possibly without the additional mortgage that was provided through the Community Development Block Grant, the second mortgage.

Definitely, that EDA guarantee was the spark that allowed that project to proceed. So the rest may not have taken place without the Peabody. And the Peabody would have been very difficult to push through without the EDA guarantee.

Senator SASSER. I can testify personally that the loan would not have taken place on the Peabody without the government guarantee, because I was involved in that negotiation. And I well remember the bankers who were involved telling me that, no dice, or no dough, would be a more applicable description until they got the guarantee. And then there was a long holdup to make sure the lawyers had the guarantee written just precisely the way the banking community wanted it.

So if the Peabody Hotel was indeed the catalyst for the building that has gone on, there would be no Peabody Hotel without the guarantees.

Mr. Gianotti, could we hear from you now, please, sir?

STATEMENT OF FRANK GIANOTTI, VICE PRESIDENT OF THE BOARD, MEMPHIS CHAPTER, CHAMBER OF COMMERCE

Mr. **Gianotti**. Thank you very much, Senator.

I am glad to be here. My role today, as you stated, I am vice chairman of the board of directors in the area of economic development for the chamber of commerce.

I am one of the witnesses here today who is a volunteer for the chamber as opposed to a staff person. I am representing the 24 other volunteer board members who come from all segments of the Memphis business community. Our role is to represent our 3,000 member chamber organization which encompasses Memphis and Shelby County and many of the businesses in the outlying areas of west Tennessee, eastern Arkansas, and northern Mississippi who are members of our chamber.

Our role is jobs. That is our thrust in the Memphis chamber, job creation, job improvement, allowing our existing businesses to grow and expand and, of course, putting new businesses, new industry into the Memphis metropolitan area.

As a cross section, 80 percent of our membership is small businesses. We represent 174 classifications of businesses, professions, industries, manufacturing enterprises. We feel that we represent a very broad cross section of the business life of Memphis. As you can see, we cover a tremendous spectrum of job creation activity and represent a large number in the Memphis area.

JOB CREATING PROGRAMS UNDER FIRE FOR ELIMINATION

We are here today with mixed emotions. We recognize that the deficit problem has to be dealt with. However, there are several programs that are under fire for elimination or sharp reduction that we see giving positive results to our job creation activities. And if they are curtailed, we feel there could be some negative tax revenue implications, or possibly just program elimination with no deficit reduction.

As you know, and I think you stated a few minutes ago in one of the other presentations, we are under tremendous competition with foreign countries in our local economy. Our jobs are going overseas. Part of the reason—not all, of course—but part of the reason is because of subsidies granted by these other countries to the businesses that export their goods to other countries, primarily the United States in many cases.

We have several programs, the SBA [Small Business Administration]; UDAG, Community Developing Program; the Economic Development Administration Program. Many of these programs—these programs have created many, many jobs in our area. There are hundreds of businesses, and you have heard examples from the other speakers of just a few, that have been created by the development of industrial parks, low interest loans. The Peabody has been used several times as one of these that has been a catalyst that has created jobs.

These programs have provided major input to the creation of jobs.

LOSS OF JOBS MIGHT REDUCE TAX REVENUES

Our concern is if you eliminate these activities or sharply reduce these activities, you would not only reduce our job creative capabilities in the Memphis area and across the country, but you might reduce tax revenues by the loss of these jobs, and you might reduce your deficit reduction goals which, I guess, is a double negative, but I hope it stresses the point.

What we at the chamber are asking is that Congress give strong consideration and make the necessary studies to determine if the deficit would really be reduced by the elimination of these programs.

Just as a point, many economists will say that construction dollars and manufacturing dollars turn over in the economy 8 to 10 times. If this is true, then these Federal dollars, properly administered and placed into projects that are properly constructed, and businesses that properly go forward, create taxes. They do not use up Federal revenue.

I guess, in summary, these programs have created jobs, and if we eliminate them, we possibly, as the other witnesses have said, are going to add to unemployment. The effect is to reduce tax revenues and, in effect, cost jobs and create unemployment.

PROGRAMS HAVE HELPED HOLD UNEMPLOYMENT DOWN

Here in Shelby County, we have got 40,000 people unemployed a day. That is down. These programs have helped that. We have 137,000 people on food stamps. We have 57,000 people receiving aid to dependent children. We have come a long way, and our chamber's economic development responsibilities are tremendous.

We appreciate the opportunity to appear before you, and we commend your effort. The last thing we would like to say is, before you throw the progams out, let us make sure we are going to actually save the money, and make sure that the economy will not be affected in the wrong direction.

Our chamber has many, many statistical data banks, which show the number of jobs, and the number of businesses that have come in, and which ones have received these particular program subsidies.

We will be happy to do the research necessary to provide you with whatever information your committee needs, if you will just ask us. I did not bring the reams of data with me today.

We do appreciate the opportunity to be here, and the business community thanks you for your effort.

Senator SASSER. Frank, I thank you for a very thoughtful statement today.

I want to say, on behalf of the Memphis chamber, that of all the chambers of commerce that my office deals with across the State, the Memphis chamber is one of the most active and vigorous in espousing the case of Memphis for new industry and creating new jobs.

LOSS OF ECONOMIC DEVELOPMENT PROGRAMS DISADVANTAGE TO MEMPHIS

If the Federal Government pulls out of these development programs that you have outlined here today, some of them being the Economic Development Administration programs, the Urban Development Action Grant Program, Small Business Administration program, et cetera, I want to ask both of you gentlemen, will this put Memphis, in your judgment, at a disadvantage, when it comes to competition in attracting industry here to this city and this county?

Make no mistake about it, there is tremendous competition for good, clean, high paying industry all across the country. If you do not believe it, just look at the competition for the new General Motors Saturn plant. It is unbelieveable, the competition for that.

Are we going to be disadvantaged here in Memphis and Shelby County if we lose these economic development programs, in your judgment?

Mr. **Gianotti**. I think so. The capital base of Memphis, and the capital base of the State of Tennessee is not as great as some of the other States in their investment categories. And I feel very strongly that our area, and the State of Tennessee, as a whole, has used these programs very well. I think our record of the proper use of these funds is outstanding.

I am sure you can speak to that better than I can. These funds that have been used primarily in our State, and our company has been involved in a lot of these, is in the area of industrial park development, incentives to industries to come in here. These are generally in the form of loan guarantees, or mortgage loans, as were described earlier. These things are paid back, in many cases, by the companies involved.

In addition, I think the economy has paid back by the hundreds of jobs that have been created. So we feel like we would be extremely disadvantaged.

The list goes on in our area of the number of jobs created by these various programs. I think our area has properly utilized them.

I will use your term. We all know the deficit has to be reduced, but we do not throw the baby out with the bath water. And I am quoting you on that. We need to save money. We need to recognize that. But we do not need to throw everything out at one time, because I think the result of that would be more devastating than what we have now.

MEMPHIS AREA UNDERCAPITALIZED

Senator **Sasser**. I think you have put your finger on it when you said that this area is undercapitalized in proportion, or relative to other parts of the country. We have made enormous progress here in Tennessee, and in this particular section of Tennessee, over the past 20 or 30 years.

But we are still one of the lowest per capita States in the Union, with regard to per capita income. We cannot forget that, when you are sitting down there at 43 or 45, out of the 50 States in per capita income.

If you are going to be competitive in attracting industry, then these programs, many of them, are tailor-made for our area. I hear that right here in Memphis. And I hear it also in upper east Tennessee, in the eastern part of the State, up there.

Mr. GIANOTTI. That is correct.

Senator SASSER. So these programs, I think, have been particularly helpful to us here, because we are a relatively low per capita income area. And their elimination, I fear, will work an undue hardship on Tennessee, on Mississippi, on Arkansas, as opposed to States like Connecticut, California, or Texas, the relatively rich areas of this country.

The philosphy behind these programs was to try to uplift the quality of life, and uplift the economic atmosphere in those areas of the country that might have been relatively bypassed.

We have got some problems here in Memphis that are peculiar to this area. You were listing the tens of thousands of people right here in this city who are on food stamps. That is an indication of the very low per capita income.

LOSS OF PROGRAMS WILL INCREASE UNEMPLOYMENT

One final question. Is it the belief of one, or both of you, that these economic development programs helped to create permanent jobs in this community, and will the loss of these programs increase unemployment in Memphis, in your judgment?

Either one of you, your best judgment.

Mr. GIANOTTI. I feel like these programs, one, have been properly administered in our area, and I think they have created permanent jobs. And I feel like we can prove that. We can provide you with additional data, as you and your staff need it. And I think their total elimination, which is what is being espoused, will create a job loss situation, and a tax loss situation to the Federal Government.

Senator SASSER. Do you agree with that, John?

Mr. DUDAS. Yes, sir. I would concur with that analysis of the situation.

It seems the question of how the programs are administered in the area is important. And one of the primary ingredients in making a decision on which project receives Federal assistance, or even local assistance, was the amount of the employment that would be created, permanent employment, and construction employment on that project. And that has been met in almost every case.

And without that kind of assistance, we would be losing both the construction jobs, as well as permanent jobs.

PROGRAM REDUCTION FAVORED OVER ELIMINATION

Senator SASSER. We all know we have got a great budget crisis. And perhaps these programs cannot continue with a Cadillac budget, but maybe we can cut them back to at least a Chevrolet budget, rather than just throwing the programs out completely.

I think one thing we have got to realize, if we eliminate all these programs, as the administration is proposing, we are not really reducing the deficit. We are just stabilizing the deficit at $186 billion a year.

I think many of these programs represent an investment for the future of this city, the future of Tennessee, and the future of Memphis, and the future of Shelby County, and indeed, the future of the mid-South.

Perhaps we need to reduce them through this area, in this time of fiscal austerity, but I am very reluctant to abolish them completely.

If the Defense Department is going to enjoy a Cadillac budget, maybe we can at least enjoy a stripped down Chevrolet budget for some of these programs.

Gentlemen, thank you very much. I really appreciate your being here today, and giving us the benefit of your views.

Mr. GIANOTTI. Thank you, Senator.

Mr. DUDAS. Thank you, sir.

Senator SASSER. Our next panel will consist of Mr. Paul Gurley, who is presently the director of legislative and community affairs for the city of Memphis.

Prior to this time, Mr. Gurley served a year and a half as director of public service for the city. He received his bachelor's degree in business administration from Memphis State University. He has also conducted private practice as a certified public accountant.

He is joined by Ms. Virginia Rutledge, who is currently the director of finance and administration for the city of Memphis.

Prior to this time, she served 5 years as deputy controller for the city, and also as manager of the budget for the city.

Ms. Rutledge is a member of the Municipal Officers Association. She received her bachelor's degree from the University of Florida in 1971, and a master's degree in economics and public finance from the University of Florida in Gainesville, in 1976.

We are also joined by Ms. Peggy Edmiston. Ms. Edmiston is currently the director of community services for Shelby County.

Prior to this time, she served 5 years as director of the department of human services for the State of Tennessee. She has been with the Shelby County government since 1976.

Ms. Edmiston received her bachelor's degree in education from the University of Tennessee, and a master's degree also from the University of Tennessee.

The gentleman at the end of the table, would you want to introduce yourself?

Mr. WHITE. I am Don White, chief administrative officer for the city of Memphis.

Senator SASSER. Welcome, Mr. White. We are delighted to have you with us today.

Why do you not lead off, Mr. Gurley?

STATEMENT OF PAUL GURLEY, DIRECTOR OF LEGISLATIVE AND COMMUNITY AFFAIRS, MEMPHIS, TN

Mr. GURLEY. Thank you, Senator. Thank you very much for asking us to be here today.

I bring you greetings from Mayor Hackett, who wishes to express regret that his schedule was not able to allow him to participate in your hearing this afternoon.

Senator SASSER. Give the mayor my best regards.

Mr. Gurley. I will be certain to do that. Thank you.

I do have, as you said, Virginia, our director of finance and Don White, our CAO, because the present cuts proposed by the Treasury Department does, indeed, have grave implications for all cities, as you are well aware.

What we hope to do as part of our remarks is to go through some of the points which are most critical to us. We would invite your questions, and response as we go through them. I have got them here in outline form.

When we get down to the more technical aspects of the bond financing requirements, and changes that really have an impact on interest costs to the city of Memphis, Virginia is going to have a few remarks.

And I hope that we have an opportunity to exchange information on some questions afterward.

I would first like to start off by saying that Mayor Hackett and the city administration recognize the need to reduce the deficit, and our willingness to share in that effort.

We do want to relate to you that the city of Memphis' financial position is relatively stable. However, it has been unfavorably reported in some of the national media, this city, as well as this State, does not have any large surpluses upon which the Treasury can prey to reduce that deficit.

REDUCED FUNDING WOULD MEAN HIGHER PROPERTY TAXES

We have not, in the 2 years of our administration, nor do we anticipate an expansion in the size of government. In fact, we do not anticipate any surpluses. And the problems that we see with the Treasury proposals that would reduce the funding assistance we get from the Federal Government would require us to raise additional revenues locally. And as you are probably already aware, the only revenue source we have available to us locally is through the property tax.

I think the remarks you made earlier concerning the economic development in this community point to the fact that one of the problems that we face when we bring new industry into this community is the oppressively high property tax, because that is the only source of revenue that we have. We are doing our best to try and reduce that level of taxation on property. Much of that would need some State initiatives. We are working on those.

We are trying to get that changed, so that we can change that system of taxation. So without the Federal assistance provided by the revenue sharing, and the UMPTA money, the Community Development Block Grants, we would simply have been unable to continue our current level of service without significant local increases that would affect our citizens, and our ability to recruit new business.

REVENUE SHARING MONEY SHIFTED TO CAPITAL USES

In the area of general revenue sharing, which we anticipated had been authorized through 1986. And we have already planned for that use.

The city, in the last 2 years, has acted most responsibly by shifting that revenue sharing money to capital uses. Currently, our city would probably fare a little bit better without the revenue sharing, than other States, because we have approximately only half of our revenue sharing money now in regular recurring operating budgets. The rest is in capital budgets.

But let us not fool ourselves. The removal of that money from our capital projects would affect our citizens, but it might not affect them at the tax table right away.

MASS TRANSIT SYSTEM NEEDS TO BE MAINTAINED

The Urban Mass Transit Assistance, you have already heard from Mike Hufnagel. That is a significant problem with us. We are currently receiving approximately $4.6 million in Federal aid on that operating deficit that MATA undertakes every year. That is more than matched by $5.5 million of city subsidy that our taxpayers are paying, because we are aware of how necessary it is to maintain that mass transit system.

Its impact on the local economic strata of our city, which, as has already been mentioned, is significant. It also affects economic growth. And we simply have to maintain that mass transit system. But with the removal of those UMPTA funds, we are not sure we could maintain it at its current level.

URBAN DEVELOPMENT ACTION GRANTS

Under the area of UDAG, it is kind of difficult for us, the city of Memphis, to get too excited about pushing for the UDAG funds.

Senator **Sasser**. I understand.

Mr. **Gurley**. As you are well aware, you have been helping us with that, and you know the problems we face. We have a tough time competing.

However, we have been able, with your help, significant help, I might add, on the International Harvester loan, which while it ended up being an ill-fated effort, it was a magnificent example of public-private, local and Federal Government participation, to help an ailing industry. We were able to get that.

And we also had one other UDAG on the Beale Street Landing Garage, which is helping to really bring together the southend of Beale Street. Those have been big helps to us.

But for us to fight very hard for UDAG to be continued, we would say that would be one that could probably go, unless we could change those selection criteria. It is just tough for us to get too excited about that program.

But we would certainly like to have some help with Peabody Place, another program that you have done a lot to help us on. But the criteria needs to be changed before we could get excited about that.

COMMUNITY DEVELOPMENT BLOCK GRANTS

In the area of the CDB grants, the 10 percent rollback and the change in percentage to entitlement, cities would especially hurt the city of Memphis. We are one of those entitlement cities. It would result in approximately a 23 percent cutback in the Memphis city budget.

The programs that those block grants affect most are those in the inner city. They help us in the neighborhood revitalization. We have been able to select those neighborhoods that, because of age and economic growth, have been so riddled with unemployment, and lack of capital available, that we have been able to do things on the infrastructure repairs that are so necessary to revitalize those neighborhoods.

Roads and bridges, community centers, rehabilitating of houses, the creation of new parks, and also the renatal rehab program for absentee landowners, that have been so helpful to us in rebuilding some of our inner city neighborhoods. That is what is directly affected in the city of Memphis, by the CDB grants.

The Youth Employment Assistance, that would be significantly cut. In the last couple of years the city of Memphis, which has a very large disadvantaged black youth population, that has so helped us in the last couple of years, in putting those people to work, through the park commission and other neighborhood revitalization projects.

The JPTA Fund has just been outstanding in our city, and we need that very badly. In addition to the funds that have come to us through Government, any number of other local programs that do not directly interface with Government, private programs that use those types of funds, keep our youth unemployment rates down, and give those people opportunities to develop into full time jobs, and training which has been most helpful to our city.

Getting away from the direct funding dollars, and when we really talked about this, we were talking about over $21 million that we just discussed, direct funding results to the city of Memphis. And in our city, with a 1 cent property tax, that yields approximately $300,000, we are talking about almost a 70-cent increase in our property taxes, if we had to replace it all. That would be a 20 percent increase in our existing property tax rates.

DEDUCTION OF STATE AND LOCAL TAXES

The things that also concern us, are some of the technical applications of this proposed Treasury initiative, the proposed fundamental changes, and the relationship between Federal and State and local governments. It is really an attack on two fronts.

The proposal that State and local taxes would not be deductible by individuals would be extremely difficult. It would heighten the resistance to increased local taxation at a time when we may well be faced with that as the only alternative, to continue providing the basic services for our citizens.

Local governments, as I mentioned earlier, have few, if any, available sources of revenues. We are working on that, with the State, as you well know. We would simply suggest to you that as that proposal moves forward, if it is unstoppable, please do not differentiate between the States, by not including all taxes in whatever action is taken.

For us, in Tennessee, without a statewide income tax, to allow other States to deduct, individuals in those States, to deduct their income tax, but, perhaps, not to deduct property taxes, would create an unfair burden, and would be very oppressive to our Tennessee citizens.

So we would urge you that if that issue is raised, if it does appear to be a passing issue, we would certainly hope, for equalization, we must ask you to encourage that all State and local taxes be considered as one in the deductibility phase.

TAXATION OF MUNICIPAL BOND INTEREST

The next item that really concerns us is the taxation of municipal bond interest. It is not now a part of the Treasury plan. But a precedent-setting move has been sensed by those of us who watch the Treasury and their pronouncements. Their attempt to include in the Social Security base income that part of the municipal interest that might create that lower threshold amount above which all income would be taxed is a dangerous precedent, we think.

The Treasury comments have indicated that they think they have the right to control the destiny of the taxability of municipal bond interest. We are troubled by that misdirection to such an approach, dismayed by the lack of respect it demonstrates to State and local sovereignty, and the responsibility and long history of constitutional doctrine, and legislation surrounding that subject.

It is not a subsidy that we are asking for, but it is an extension of reciprical immunity. Local and State income taxes do not tax Federal interest, paid on Federal obligations. And we think that is a logical extension of that agreement, and should not be changed.

The rules that deal with the technical aspects of bond issuance and arbitrage changes could be extremely damaging to the city of Memphis. Those rules that determine that any arbitrage earned at the time of the bond issue would have to be returned to the United States Treasury would severely hurt us.

We determine, at the time of issue, what a project would cost. That interest that we earn, as a natural process, in bond marketing, goes to reduce the cost of that project. The economy of scale at issuance clearly illustrate that to issue it three or four times during the length of a capital project, would simply increase the cost of going to market, and work a disservice, and increase the cost to local taxpayers.

The local government's ability to market at a time most advantageous to get the best rates would be severely hampered. We think that good cash management results in arbitrage earnings, and we do not feel that that should be punished by these Treasury regulations.

The natural cycle of capital projects which require lower amounts of capital at the beginning, raising to high amounts in the middle, and then tapering off, would require that those bond funds be available at the beginning of the project, purposely invested to provide income during the start up phase, and be available throughout the term of the project would naturally create some arbitrage earnings. There is simply no way to plan it without it.

REFUND ISSUE

Another item that concerns us is the refund issue. The Treasury proposal would provide that there could be no advanced refund issues. In the city of Memphis, some 2 years ago, through good management, Virginia was able to save the city some $13 million over—$7 million over 14 years, because we were able to refinance some of those bond issues that we were forced to go to market with in the high interest rate days of 1980 and 1981.

I would like to turn the program over for a few minutes to Virginia, to deal with the proposed rule that affect the public versus private issue bonds, and the determination that the Treasury has made, which could harm us even further.

Senator SASSER. All right, Ms. Rutledge.

STATEMENT OF VIRGINIA RUTLEDGE, DIRECTOR OF FINANCE AND ADMINISTRATION, MEMPHIS, TN

ELIMINATION OF TAX-FREE BONDS PROPOSED

Ms. RUTLEDGE. The new proposals by the Treasury have gone to virtually eliminate the tax-free bonds, which the Treasury defines as nongovernmental in nature.

In their zeal to accomplish this task, we also fear that there are many public purposes that may be curtailed. And there are two particular areas of concern that we have.

ELIMINATE "ON BEHALF OF ISSUER"

The first proposal the Treasury has is to eliminate what they define as "on behalf of issuer." These are circumstances where an authority or an agency would be issuing tax exempt bonds, rather than the Government issuing them direct.

There are several concerns here. The first is that there appears to be no clear definition of what an "on behalf of agency" is. The Treasury Department, in the late 1970's, entertained a 2-year project to try to define what an "on behalf of issuer" was, and ceased that project because of the complexity of it.

We have a great deal of concern should such a proposal go through as is without clarification, that many appropriate authorities, and other entities, airport authorities, other utility authorities, and the like, who do good public purpose governmental-type of services, and issue bonds for those purposes, would not have the ability to issue tax exempt bonds. And we have a great deal of concern about that.

Our concern also is that apparently the Federal Government is trying to tell the State and local governments how to go about issuing debt for public purposes. And we feel that that should be a local decision, whether a local government's needs are best served by the use of authorities and the like in terms of managing some projects, or whether the government should issue those directly.

1-PERCENT RULE

There is another part of the proposal which I would call the 1-percent rule. Part of the Treasury proposal is that if any more than 1 percent of a bond issue is used, either directly or indirectly, by a private entity, then this bond would become an industrial development bond. And since they propose to eliminate the industrial development bonds, that means that bond would be taxable.

The current level of restriction is 25 percent, which, I think, is appropriate and reasonable. It prevents Government from getting unduly into the private area, and it also allows for reasonable partnership between the governmental and private sectors.

There are appropriate relationships between the Government sector and the private sector, which can work to the advantage of the taxpayer, in reducing cost, more than just short-term operating contracts.

One has only to look at the example of the airport areas and utilities and sewer systems, and resource recovery plans, where such relationships are appropriate. We have a number of projects locally, which I can think of, that would be in jeopardy should the 1 percent—would have been in jeopardy should the 1-percent rule go into effect.

I do not believe we would have been able to carry off the Convention Center Hotel. I have some real question about part of the area of Mud Island under construction. I am not sure about the Orpheum. I have some question about Beale Street, among others. I think a 1-percent limit is far too restrictive, and inappropriate for the kinds of partnerships that should exist between the two sectors.

NEW SOURCES OF REVENUE NEEDED

Mr. GURLEY. In summary, Senator, I think the point we would like to make is that the city is willing to share the burden of the deficit reduction.

We think that the Federal Government has the best ability to fairly tax the citizens of the United States. But it also has the best ability to redirect those taxes back to the local governments, who can provide the best services.

We would like your help with some new sources of revenue for local governments. Perhaps if the burden of providing those services is going to come back to local government, some of the petroleum taxes, excise taxes, or income taxes, could be redirected back to a pro rata distribution, to the cities and counties, who have to accept these burdens. The effect on our need to plan further ahead than the Federal Government is very important, because we are unable to run a deficit in the city of Memphis.

We have to know pretty far in advance, at least a year and a half in advance, how much our revenue sources are going to be. The timing of the fiscal year, and the differences between the Federal and city budgets is very important.

I guess the thing that we most need your direction on is how you would recommend to us that we plan for our next year. We are currently in the budget process. We are about to recommend to our city council a new tax rate, for a year that will begin July 1. Yet, the proposals before the Senate that would deal with the deductions would hit us in October of this year. And yet, once that tax rate is set, we have nowhere else to go for revenue.

What is the outlook for a public transit, for the revenue sharing dollar, or even some of the capital projects for summer youth, something that is just around the corner? How do we plan for those for the following years?

Thank you for the opportunity here today, and for any questions you may have.

Senator SASSER. Thank you, Mr. Gurley, and Ms. Rutledge, for your presentations.

I would like to hear from Ms. Edmiston now, and then, perhaps, we will have some questions.

STATEMENT OF PEGGY EDMISTON, DIRECTOR OF COMMUNITY SERVICES, SHELBY COUNTY, TN

Ms. EDMISTON. Thank you, Senator.

I bring you greetings from Mayor Morris, who is in Washington today, attending the Legislative Conference of the National Association of Counties.

On behalf of the citizens of Shelby County, please accept our appreciation for your leadership in introducing the general revenue sharing 5-year reauthorization bill.

We are especially happy to see that Senator Heinz, a Republican Senator from Pennsylvania, cosponsored the bill, in the spirit of bipartisanship, which is so badly needed in these times of fiscal distress.

Mayor Bill Morris, in his January 15 letter to you, to the President and the Budget Senate and House Delegations and the congressional leadership, urged such a bipartisan effort of this nature.

TENNESSEE HAS LOST $1.7 BILLION IN FEDERAL AID

Prior to addressing the President's proposed budget for fiscal 1986, some background is necessary. Fiscal Planning Services, Inc. of Washington, DC, reports that since 1981, Tennessee has lost $1.7 billion in Federal aid. And Shelby County, which includes Memphis, the proportionate loss was $300 million, and crossed the full gamut of programs, from Urban Development Action grants to food stamps.

This loss in Federal revenue, coupled with Federal and State mandates, simply increased the local regressive property tax burden on our citizens.

Since 1981, the Shelby County Government, has seen its payments for indigent in-hospital health care increase by 63 percent, from $19 million to $31 million. It cost Shelby County $650 million more, in addition to what the State pays us for housing their prisoners.

The county pays $1.5 million every year to Memphis State mandated school transportation costs. As a result of these budget cuts and mandates, the Shelby County property tax has increased from $3.30 in 1981-82 to $3.78 in 1984-85.

Shelby County has reduced its employees by 20 percent during this same period. Shelby County supported the general concept, if not all, of the New Federalism proposals, including the fiscal 1982 reconciliation resolution.

However, we soon discovered the New Federalism meant different things to the President, the Congress, the State, and the local governments. New Federalism, to us, means the sharing of roles, responsibilities, and revenues, not the divestment of national domestic problems, to the overburdened cash registers of local governments.

ADMINISTRATION'S PROPOSED FY 1986 BUDGET MORE DEVASTATING

To emphasize this dilemma, the administration proposed fiscal year 1986 budget is even more devastating to local governments.

The loss of revenue sharing alone would mean at least a 20 cent increase to county real estate taxes. What sense does it make to kill revenue sharing, which is the best managed and most effectively used Federal program?

Shelby County uses all of its $7.4 million each year to support the city and the county public education system, which in turn, educates some 67,000 poor and handicapped children.

As a member of the local community service agency board, and the county liaison with that agency, I can testify that by eliminating this Federal program, Shelby County loses $1.3 million, 75 employees, and emergency life sustaining services for thousands of Memphis and Shelby County citizens.

By capping the fiscal year 1986 Medicare budget at $23.6 billion, Shelby County's share of the indigent health care budget will incease by about 5 percent. A 5-percent increase means $1,555,000 more, which is nearly 4 more cents on the property tax.

The impact problems appear endless from community development block grants to mass transit funding. We see the Federal Government retreating from helping us address our very critical housing problems.

Mayor Morris feels very strongly that housing is, perhaps, one if not one of the most critical issues facing us now, and into the future.

We are taking steps locally to address this need through a creative partnership with the private sector. Mayor Morris appointed a housing task force last summer to help us look for new ways to meet our housing needs, and not be dependent upon the Federal Government.

LOCAL GOVERNMENTS ALREADY DOING THEIR PART

In summary, the mayor believes local governments have already done, and are doing their part. It is time for the Federal Government to lay everything on the table. Defense spending, especially the waste that we so often hear about, and read about, should bear the same level of reductions as domestic programs.

In addition, we feel the Congress should deal seriously and urgently with tax reform, and simplification in an effort to make the system more fair, with the capacity to provide additional revenue from those who can best afford to pay.

The local government is the government of last resort. The Federal Government passes cuts along to the State. The State passes along the cuts to the local governments. We have nowhere to pass the cuts along.

In conclusion, the mayor has urged the citizens of Shelby County to join his efforts to redeclare bipartisan compromise on the fiscal year 1986 budget. He believes the strength and statesman-like leadership of you, Senator Sasser, and the rest of our excellent congressional delegation will rise to this challenge.

We appreciate the opportunity to share our concerns with you.

Senator SASSER. Well, thank you very much, Ms. Edmiston. I appreciate the mayor's vote of confidence there, that we will solve this budget problem in Washington.

I also appreciate your comments about the New Federalism proposal. It means different things to different people, as you said.

It appeared to me, in reading some of the proposals, that what we were doing at the Federal level was sending responsibility back to the States and local governments, but not giving them the revenue sources to carry out those responsibilities.

And that may be one reason the New Federalism really never got off the ground, because it just did not have the support of the States and local officials that it needed to have to really move.

EFFECT OF ELIMIINATING GENERAL REVENUE SHARING 1 YEAR EARLIER

Let me ask you this, Mr. Gurley. The President's budget proposes to eliminate general revenue sharing 1 year before it is scheduled to expire, as you have noted.

Now, if the administration's proposal to do away with it 1 year prior to its being scheduled to expire takes place, what does this do to the planning functions of the city governments?

Mr. GURLEY. Senator, over the last 2 years, we have reduced the operating dependence, the city of Memphis has, on revenue sharing, for the total amount, for the approximately $13 million, depending on the year. It is down now to below $7 million.

Our intent, over the next 2 years, would be to reduce it completely, and shift the burden that we have locally, from the use of revenue sharing money, completely to capital projects.

Now, on the operating budget, it would be extremely critical to us. We, obviously, in the operating budget, would have to increase local taxes. That is the only option that we have.

In the capital budget, once we got to the point where all the revenue sharing dollars were shifted to the capital budget, we conceivably could do without that money, by reestablishing a different set of priorities on those capital projects. The hurt would be there, but it would not be such that we would have to replace all the dollars with immediate local tax increases, if we could get that shift.

If we could get 2 more years under the plan we established some 2 years ago, when this administration took office, we could pretty much be free of the operating need for those revenue sharing dollars, and have them back in the mode of simply working on capital projects.

FEDERAL ASSISTANCE CUTS WOULD HURT MASS TRANSIT SYSTEM

Senator SASSER. Under the proposed budget, Memphis is going to lose over $4 million in Federal operating assistance for the mass transit system. What, in your estimation, Mr. Gurley, would this do to the bus fares, and service here in the Memphis area?

Mr. GURLEY. Mr. Hufnagel addressed you earlier. I would simply suggest that with the city already adding another $5.4 million in assistance to the Memphis Area Transit Authority, I would sincerely doubt that the city council would be willing to add more subsidy, which would have to be funded by increased property taxes.

Therefore, some combination of cutbacks in service, and increase in fares would have to be considered. And I think that Mr. Hufnagel testified earlier that we are already at the base level of service.

And, in fact, after the last cutback, we started feeling severe reductions in ridership, at the last fare increase. So we may be at the crossroads, at the very existence of mass transit, in a city which has significantly low-income citizens, and they will be forced to be unable to get to the jobs they do have.

UDAG PROGRAM FORMULA ALMOST CHANGED

Senator SASSER. I appreciate your remarks earlier about not being too alarmed about doing away with the Urban Development Action Grant Program because, frankly, the formula is unfairly discriminating against some States.

You might be interested in knowing that I was successful in getting that formula changed in the closing hours, and literally, in the closing minutes of the last Congress, and changed in such a way that it funded the Peabody Place project.

But the House of Representatives closed its doors before I could get the bill over there. In fact, we passed it about 2 or 3 a.m., and I took it directly to the House, and they had just adjourned.

The Speaker had left, and I tried to talk to Tom Foley, the majority leader, to at least see if we had a quorum to pass it by voice vote, but it was too late. They had shutdown.

If the Urban Development Action Grant Program survives the budget cuts, we are going to get the formula changed, so that we, here in our area, can get our fair share of it.

Mr. GURLEY. That Peabody Place development would make a success of the dollars we have already invested in the Peabody-Beale Street, The Beale Street-Wagner Development, as well as the Orpheum. It would just clearly be the cornerstone of the newly revitalized south area of downtown Memphis.

CDBG CUTBACKS CANNOT BE REPLACED

Senator SASSER. One final question. Memphis has a housing problem, I am told, a fairly severe housing problem. I think I might have heard one or both of you refer to it in your testimony today.

The administration would reduce Memphis' share of the Community Development Block Grants, reduce it by about $3,100,000 per year.

Now, since this program's inception in 1975, Memphis has received about $150 million in Community Development Block Grant funds.

My question to you is, if you get a $3 million reduction, how are you going to replace it? Or are you going to replace it?

Mr. GURLEY. As far as the city is concerned, we simply would not have the resources. Obviously, when we talk about replacing one funding item in the budget, it is wholly dependent on, are you suggesting that we are going to get all of our revenue sharing money?

Or is it going to be on top of that, or whatever? Obviously, our priorities are those in the area of safety, that we would have to consider first.

It is difficult for us to give you a set of priorities today, and to tell you how deep those cuts would go, or how far our citizens would allow us to go with increased property taxes.

Studies that we have done in the last 6 months, to inquiries as to why we are having a problem in attracting new capital investments here comes down to the bottom line, that our property taxes are inordinantly too high.

As you know, we do not have an income tax. We are trying to change that in the State of Tennessee. But that is the problem we have with capital investments here. And I really doubt that we could replace those dollars that we would lose from the CDBG cutbacks.

ECONOMIC IMPACT FROM LOSS OF ECONOMIC ASSISTANCE PROGRAM

Senator SASSER. Ms. Edmiston, let me ask you this. What do you see as the economic impact here in Shelby County if the Federal Government pulls out of its commitment to the community, the economic assistance program?

Do you see the flight of these funds as having an adverse impact on the quality of life of the residents of Shelby County?

Ms. EDMISTON. Yes, Senator, I do. I think the effect would be just awesome, when you think about it. Already, in the county, we have 20 percent of the persons under poverty level income in the State of Tennessee. Twenty percent of them live here.

So I think, with all of these cutbacks, what we would see locally, first, would be more demand, but we would not have the resources to meet that demand.

I think that oftentimes it just exacerbates our problem in that we already have an inordinant number of poverty level persons in the county.

Thinking alone of the city of Memphis Hospital, in the area of housing, particularly as you look at the numbers of elderly, and you look at the projections of the increases in the number of elderly, that alone is awesome.

LOSS OF FEDERAL ASSISTANCE WOULD SEVERELY HURT MEMPHIS

Senator SASSER. Let me just ask this question, and then I will not ask you any more here on this pretty Saturday afternoon.

Mr. Gurley, I will ask you this, also, and Ms. Rutledge.

In the event that this budget is passed, effectively eliminating many of these programs, and severely cutting some of the others that we have talked about, it zeroes out general revenue sharing, zeroes out UDAG, EDA, seriously reduces the Community Development Block Grant Program, zeroes out the Small Business Administration, what is it going to do to Memphis, in your judgment?

Mr. GURLEY. Senator, the direct dollars, if all the programs proposed were enacted, would require an increase in local property taxes of more than 70 cents, which would be better than a 20-percent increase in our local property taxes, if we funded all of those services at the current levels. Those funds would be—we are talking about simply the general revenue sharing dollars, and the UMPTA money, not to speak of the CDBG money which, quite frankly, I do not think we could replace, I think that the level of service of our transit system would be severely reduced.

And those citizens who are in the lower end of the economic strata may be forced to give up their jobs, and apply for welfare assistance on whatever remaining programs there are.

It would be almost impossible for us to continue to attract industry to this community, without the help and assistance of programs such as the EDA and the Community Development Block Grants.

Industries that are already in trouble, some of the smoke stack industries, in which we are able to use some of that Community Development money to anchor a refinancing of the existing factory jobs would be beyond the reach of local government.

I think the consequences would be very severe in the city of Memphis, and would cause a severe retrenchment in the government's ability to serve its citizens.

INCREASING PROPERTY TAXES WOULD NOT SOLVE ALL PROBLEMS

Senator Sasser. And if you tried to make up the difference in property taxes, in the first place, you could not do it, I would guess, because it would be politically impossible.

Mr. Gurley. I would think that would be the case.

Senator Sasser. And, No. 2, if you were successful in making that increase in property taxes, then you would just further price yourselves out of the market with regard to competing for industry coming into this area?

Mr. Gurley. And even if we were able to do that, we would not be able to continue with the capital reinvestment, and repairs, and rebuilding of the infrastructure that we would be able to do with the capital dollars provided by the revenue sharing and other programs.

Senator Sasser. Ladies and gentlemen, thank you very much for coming here and giving us the benefit of your testimony. It has been very, very helpful.

I would like to say that I appreciate Mayor Hackett's concern about the budget deficit, as I appreciate the county mayor's concern. I am concerned about it myself. But I am hopeful that we can find some way of dealing with this deficit problem, without just doing away with all of these programs, which as you have testified, and which I believe are of crucial importance to us here in Tennessee, and the mid-South region.

Thank you very much.

Mr. Gurley. If I might just add, Senator, we would appreciate—the matters of the dollars, the revenue sharing and the UMPTA moneys are very important.

But some of the technical provisions of the act that deal with the abilities of cities to even enter the long-term equity market are very crucial to us. Virginia is very active in the Government Finance Officers Association. We have found their help and advice to be most beneficial to us.

Mayor Hackett is very active in the National League of Cities, and we hope that you will take their testimony as provided to you, because they are right there in Washington.

And feel assured that we are reviewing and monitoring their activities. Virginia is very involved in one of the Government Finance Officers Committee assignments, and we find them to be right on target in expressing the problems we face in local governments, without really overblowing the issue. We think they are right on point.

We appreciate your giving them attention when they respond to you.

Thank you.

Senator **Sasser**. Thank you very much.

We have got one more panel. I want to express my appreciation to them for being so patient here today.

The panel will consist of Mr. Marshall Murdaugh, who is currently president of the Memphis Convention and Vistors Bureau; also, Mr. A.W. Willis, distinghished managing general partner of Supreme Mortgage & Realty Co.; and Mr. Mike Ritz, who is currently the president of Elkington & Keltner Properties, Inc.

Gentlemen, I welcome you, and appreciate your coming today, and appreciate your being so patient, as we went through these other panels.

Mr. Willis, we will begin with you today, and work from my left to my right.

STATEMENT OF A.W. WILLIS, MANAGING GENERAL PARTNER, SUPREME MORTGAGE & REALTY CO.

Mr. **Willis**. Thank you, Senator.

It is always a pleasure to see you, and always a pleasure to give you the benefit of my meager thoughts.

One advantage of being last here is that I heard a lot of particulars about a lot of particular programs. So in my mind, I thought I would make comments more on the theory of it, because I concur with all the comments and statistics that these people have already stated, and with the impact studies.

The question is, what happens when the impact comes down. And I think that is a far more reaching question.

REAGANOMICS AND WHAT HAS HAPPENED

In the beginning, when the Reagan administration was coming in, I was wondering what was going to happen with Reaganomics, and especially with economics being my major. I was wondering, where is he trying to take this country.

Certainly, they were businessmen worried about free enterprise. Clearly, that was his stated position. When you look at the people around him, it appeared that they were people who enjoyed the benefits of the capitalistic system, and wanted it to continue.

He came out and said that he was going to balance the budget in a couple of years. That sounded like a dream to me. I did not think that he could do it, without a lot of upheaval and changing the whole Nation. And, of course, obviously, he did not do it.

I am almost suspicious that that was his design, to create a panic, to create a budget crisis, to reshift the assets of this Nation and the world, to do business differently, to do business with mutinational cartels, and conglomerates nationwide, as opposed to saving America.

We know that part of the reasons that Japan and all of the nations of the world come here is because we own a great deal of those companies, so we have an interest in all that kind of stuff. And the businessman, if he can shift his labor over there, fine. He saves money, and can make a bigger profit.

Clearly, the tax power is the power to change the Nation. There is a whole school in economics on that, that's the way to get more people equal is to use tax power. Clearly, that can be done.

Clearly, all of the tax policies which are coming out are not just to shift dollars from here to there. Some of them are designed to change the nature of the business in this Nation, for whatever purpose.

What I think they are missing is that the dream we implanted in the American people a long time ago that they were a part of a creative system, and that every man could struggle and every man could shift his own destiny, is much deeper than some politicians dream or recognize that it is.

PEOPLE WILL NOT TOLERATE REVERSAL IN STANDARD OF LIVING

I am convinced that as this Nation goes down the line the way the President is talking about now, it is going to be the beginning of a revolution. The people are not going to tolerate or stand for a reversal in their standard of living at the rate that reversal is coming down, if we move to do these budget cuts. And the tragic part is, is that it is not even going to cut the budget any.

The panic that the Russians are coming—of course, I am sure the President has much more information than I have, but I cannot believe that all that panic is necessary. And I do not think that we ought to give a blank check to the Defense Department in the name of saving the Nation. We really cannot look at that panic and see what is going on in the Defense Department.

We are in this war with Russia, and they are probably playing the same game, and their economy is going down the same way ours is. They are spending most of their money on this so-called armament race. And the whole world is reshaping the way it is doing business.

The great thing about America, and the thing that made it great is what they want to destroy most right now, at this time.

The private citizen has got to think of free enterprise. If they did not think that, then this thing would change overnight, and you would have a revolution. And because the American people believe in the system, they listen to their leaders, and they try to go along with them.

The little simple matter of home, probably the only entrepreneurship that the average American will ever see, is the home, and they are trying to take that away, clearly, from the cuts, as proposed in HUD, Housing Development, over 50 percent.

And the last year tax thing, they got to the question of the tax-free bonds, when there was an unlimited amount that could be issued for multifamily units, where there was a very small cap put on ownership programs. When you put the two together, then you wonder if the American dream is not, you will have a right to rent a house, it is no longer to buy it. That is how the emphasis has shifted.

If you look at the small businesses, if we lose the small businesses, and we are losing them, as you see in the farm situation, the economic impact of those farmers going down the drain will not be a heck of a lot on the country, but what you have done is shifted and destroyed all the small farmers that make up America. They are the backbone of America. They are the people who keep the Nation together, believing in the system.

And if you destroy that, pretty soon they are going to say, the Government is mine, and we are going to make it the way we want it, and they are going to throw all of these fellows out of office, and we are going to end up in the middle of a revolution.

And they keep the pressure of the Russians breathing down your neck to make it happen. Because, clearly, part of their strategy is to make you respond to a scare that is unreal.

Clearly, we have got enough of these bonds, that they, or us, or nobody else can live if we release those things, so it really does not make any difference.

TRENDS OF HISTORY MISREAD

So if we are going to live, then we have all got to live. In my view, all the cuts that he is proposing, I am not even concerned about compromising. I realize that sometimes you have to compromise, but I am not willing to talk about, if you cut a little bit off of this, what will it do. I think the theory they are pushing is still there, destroy—and I am sure they do not want to. They want to do it another way. But I think they have misread the trends of history.

And Reagan misread a little thing called greed, when he said, we will just make these little changes, and all these rich people will go down, and they will spend all this money to help the poor. But instead, they spend it to make more money. They spend it to buy companies, and to buy companies that were the most profitable.

The tax policies have got to be designed to make them—they want to take the benefit of the things, and they have got to be made to hurt in their pocketbooks. That is the only thing they are going to listen to. And we have got to have these incentives to keep the country on an even keel, and to let all of our people be a part of this, and try to do something about retraining of this Nation, and reshaping our destinies from the direction we are going.

Otherwise, we are going to look at two stages of a revolution. Either they are going to have to set up a totalitarian government to control the folks, or the poor folks are going to get there first and throw them all out of office, and set their own machine up. And we are going to have to pass through that to get wherever it makes sense to live in a civilized society.

I personally do not want to go that route. I think that is a little heavy. And I think we need to look seriously at this thrust of what the Reagan people are doing, and who is doing it, because he is just reading a script, as far as I am concerned, and the script is looking mighty sick.

Senator SASSER. Thank you, Mr. Willis.

You have covered a lot of territory in that statement there, and I think some of the things you say there make some sense, make a lot of sense.

Mr. Ritz, why do we not hear from you now?

STATEMENT OF MIKE RITZ, PRESIDENT, ELKINGTON AND KELTNER PROPERTIES, INC.

Mr. RITZ. All right. Senator, thank you for letting us come before you. We appreciate this opportunity.

Most of the work that our company does is in urban development downtown, and most of it in Tennessee, and in housing. I think from that prospective, we can share with you a few ideas about some of the things you have already heard.

These assistance programs of the cities are very important in the kinds of projects that our company gets involved with. The Transit, the EDA, UDAG, Investment Tax Credit, revenue bonds, and all those things.

EXAMPLES OF PROJECTS HELPED BY ASSISTANCE PROGRAMS

I would like to give you a few examples. If the investment tax credit for historic projects is taken away, not only do I think that projects, downtown projects, will be hurt, but especially downtown housing projects. And also, some of the high profile projects, like Beale Street in Memphis, and Union Station in Nashville, those projects depend on that kind of program.

I do not know what this community would have done without EDA. I think they only made three big projects in Memphis, and they were about as high profile as Memphis could have. Beale Street, Peabody, and the Orpheum. That was it. I was involved with all three of them, when I was with the city, and now as a developer.

When they were sort of at the top, I guess the HUD officials thought they would get a better program, and that is when UDAG came creeping out of the block, and that looked real good.

But as you know, when Memphis became an eligible city, instead of a pocket of poverty, we were out of the money. We got two while we were a pocket of poverty, and we have got none since.

The point that Paul made earlier on behalf of the city of Memphis is right on. UDAG does not mean anything to Memphis right now. The chances for qualifying for one of those programs are so slim as to be ridiculous. But if the programs come back into existence, I honestly believe it was one of the programs where the cream really did rise to the top.

In this last round, there were 880 applications, and only 44 were awarded. Fortunately, it was one of ours, and you helped us with it. And Union Station was one of them.

Senator SASSER. I helped on the Peabody place, too, but we did not get that one.

DOWNTOWN PROJECTS NEED TRANSIT SYSTEM

Mr. RITZ. Yes. I was trying to stay positive.

The transit dollars that Mike Hufnagel and some of the others talked about, these downtown projects need that transit system. If we do not have the transit system downtown, we are in trouble. We have got two projects downtown now, and about four more coming, and I do not think we would do three of the other four if the transit system is not going to survive.

Senator SASSER. Mr. Ritz, this transit system, is that critical to the development of downtown Memphis?

Mr. RITZ. It is, from a developer's standpoint. It is a very difficult thing to put your finger on. If you are not close to the system with your projects, you are in real deep trouble. And some of the parts of downtown that do not have a service, as well as some other parts of downtown—in fact, we are trying to develop a little bit better system for downtown—it makes it difficult, especially for Memphis, as they have all said, we have a lot of people who cannot get around any other way. Our city streets are very narrow. The Memphis downtown streets are incredibly narrow.

Winchester and those guys who laid the streets out did not look very far ahead, because the streets did not need to be very wide at that time. In the suburbs, our streets are so wide that they can accommodate six, or seven or eight lanes of cars. But downtown, you will choke on the car system down there. So it is imperative to have the transit system down there.

In addition, a big part of the Memphis economy, in the short term, is going to be related to tourism. That is Mr. Murdaugh's business, and the tourists and the people who work in the tourism business, need that transit system, And the tourist projects in Memphis, of which there are a bunch, include the hotels, the downtown restaurants, the Convention Center Hotel, our Beale Street project, and others, and the system is absolutely imperative, for those.

I do not know what we would do if they had to shut it down, I really do not.

INDUSTRIAL REVENUE BOND PROGRAM HAS BEEN MISUSED

There is one other program I wanted to mention, and that is the industrial revenue bonds. I would be the first to say, and my company would stand behind this, there has been a tremendous amount of misuse in that program, a tremendous amount of misuse, funding fast food places, and gas stations, and frankly, office buildings in the suburbs is ridiculous, and still is.

But it could be well targeted. It could be targeted to jobs. It could be targeted to houses. It is probably the only program right now where some moderate income housing comes out of. There is not anything else. There is not a new program under which new housing gets built anywhere in the country.

Senator SASSER. The industrial revenue bond program has been tightened, where you cannot build a McDonald's with that any more.

Mr. RITZ. I recognize that. But that has only been in the last 12 months.

Senator SASSER. That is correct.

Mr. RITZ. It has taken us a while to get there. But I think sometimes we kick these programs around so much, and tighten the screws around, and throw them around, when we need to fine tune them a little bit. I think we got the IRB thing about where it ought to be.

We ought to sit back and let it work for a while. It is working with housing very well. It is working in Memphis, and Jackson and Nashville. There is some in Little Rock and Charlotte, and it is very helpful.

Senator SASSER. Thank you, Mr. Ritz.

Mr. Murdaugh, we would like to hear from you.

STATEMENT OF MARSHALL MURDAUGH, PRESIDENT, MEMPHIS CONVENTION AND VISITORS BUREAU

Mr. MURDAUGH. Thank you, Senator, and good afternoon.

I am delighted to have the opportunity, on behalf of the bureau, to present just a couple of thoughts about the impact of the Federal administration's proposed budget cuts in the area of community development.

First, I would like to commend you, on behalf of the Bureau, for your leadership role, for your helping us on these projects, and how important it has been to tourism in this city.

We are very appreciative of your efforts on behalf of this industry. We also thank you for the opportunity to be here today.

Senator SASSER. Thank you, you are kind to say that.

I did not realize, until recently, just how important tourism was in this part of the country.

IMPACT OF PROPOSED ELIMINATION OF COMMUNITY DEVELOPMENT FUNDS

Mr. MURDAUGH. I do not think most people realize that, in general. I do not think they realize that, as you know, tourism is generally regarded as one of the top three industries in 46 of the 50 States, and generates more jobs in the economy than just about any other segment. It generates more jobs for minorities, and certainly for women.

We have been greatly concerned with the impact of the proposed elimination of community development funds. As you know, tourism, because it is the business of providing goods and services for travelers, relies on the amenities within the community, the manmade amenities. And the amenities in this community, other than the time honored traditions of the mighty Mississippi and the Heritage, and historical heritage, leaves us with major amenities that were built through a partnership with the Federal Government.

The Benchmark, the world famous Peabody, the rebirth of Beale, the cultural and artistic renaissance of the Orpheum Theater. In our judgment, those never would have occurred if it were not for these Federal grant programs.

These were, as Mr. Dudas said earlier, just a part of a one-half billion dollars in downtown development in the last 5 years that have provided the infrastructure for travelers' experiences here.

Last year, according to the U.S. Travel Data, these visitors who came to Memphis, and Shelby County, spent an estimated $700 million, and generated a payroll for about 16,000 people in this community.

Incidentally, we are hoping, and planning on visitor expenditures in the $1 billion range in the next 4 years in this community. Therefore, it is our obvious concern that grant programs due for elimination will deny the people in Memphis the opportunity for future development, to either enhance our visitors' experience, to bring more people to the community, or just to provide the social amenities for the citizens who reside here.

DEVELOPMENT AND MARKETING ARE CRITICAL AREAS

A word about our funding. We have just undergone a 400-percent increase in our funding for the bureau, to mount an aggressive awareness generating campaign to stimulate additional visitation.

As you well know, tourism is not like spontaneous combustion. It just does not happen. And we honestly have not had the tools in the past to do the kind of job that needs to be done to generate additional levels of expenditure.

We have a budget now of $0.5 million, primarily through a partnership of four major corporations and the city of Memphis and Shelby County. Our future concern is that for every dollar that is taken away from Federal Government participation will require some sort of transfer of responsibility to the county and city governments.

Theoretically, then our local governments would have $1 less for every dollar limited by Federal expenditures to support our marketing efforts. Without those marketing efforts, we are not going to be able to do the job, to bring people to this community.

Fifteen percent of all the retail sales in this community come from people who live outside this community. And most of those people will be motivated to come here for their travel experience.

So it is really these two critical areas, the development and the marketing, that give us the greatest pause, and that we are primarily concerned about.

LEVERAGE PRIVATE CAPITAL WITH PUBLIC FUNDS

Senator SASSER. Thank you very much, Mr. Murdaugh.

Let me ask you, Mr. Willis, and you may want to comment on this also, Mr. Ritz.

In driving around Memphis today, I saw some of your development work, Mr. Willis.

In the experience of both of you, how important is the concept of leveraging private capital for downtown rehabilitation, for example, leveraging this private capital with public funds that come from these various programs?

Mr. **Willis**. Well, I think it makes the difference in whether it will go, or not go. The deterioration already in the downtown area is so deep that there has got to be some way to get back to even ground.

In other words, if you could start off with a zero base, you may could make it in the marketplace. So it makes a difference in whether it will go, or not go.

Clearly, the Federal Government has got to do one of two things. They have got to fund it all, or the other thing is they could try to create incentives to trigger loan participation, and join with private capital to get the job done. There are dollars in the private sector, but there is a price tag on those private dollars, and that is not going to change, unless you get into regulating that.

And that is another whole situation, and another impact, on how that is going to be done. If you are not going to get into that, you cannot move like the Reagan people are talking about moving, and at the same time expect the results that they say are going to come. The results are just going to be the opposite.

The final say is, the only way I could vote for those proposals would be if I was sitting on the board of directors of a multinational cartel, or if I was a Socialist. Those two ways I would do it, because I would want to hurry up and get this mess over with, and the faster and deeper those cuts go, the faster we are going to get the show on the road.

There is no middle ground for people dreaming about America and its future, and what everybody talks about. It is going in one or two directions now.

Senator **Sasser**. Mr. Ritz, how important do you think it is to leverage private capital with public funds?

FEDERAL LOAN GUARANTEES ARE CRUCIAL TO PROJECTS

Mr. **Ritz**. Well, it is crucial to the project. It is just like A.W. said. We work with A.W. on projects, and our experience is such that a lot of them just would not happen. It is the question of risk.

Senator **Sasser**. Would the Peabody Hotel, in your judgment, have been reconstructed without the Federal loan guarantees?

Mr. **Ritz**. Not yet would it be. It might have deteriorated so much that it would be impossible. But it may be that in 2 or 3 years, if Marshall's program was successful, and a few other things happened, that if the Peabody was not already redeveloped, it might be in 3 or 4 years. I doubt it. It is just too expensive. Those are high risk projects.

You are swimming upstream, against the marketplace. It is hard to make an old project, with all the bells and whistles of a new project. It is very difficult. And you cannot make Beale Street an enclosed mall. So you are subject to the weather.

There are risks there, big risks. We had a big winter this year. You know, it hurts. And how much risk can a developer take? And if some of those things are not in place, then it is not going to go.

Senator **Sasser**. Let me ask you this. Would the Orpheum project have gone on?

Mr. **Ritz**. No, it would not have.

Senator **Sasser**. Would the Peabody Hotel project have gone on?

Mr. **Ritz**. No.

Senator **Sasser**. Would the Beale Street project have gone without public funds?

Mr. **Ritz**. No way.

Senator **Sasser**. Where would downtown Memphis be now without those projects?

Mr. **Ritz**. It would be a completely different kind of place.

Senator **Sasser**. How about the tourism, Mr. Murdaugh?

How would you be promoting tourism in Memphis, if you did not have these projects in place?

Mr. **Murdaugh**. We would not have the products, Senator.

Now, we have the mutimillion dollar convention center, that we are beginning to develop through a coordinated sales staff. We would have no way in enlisting peoples' interest in this community, without those facilities.

Senator **Sasser**. Gentlemen, thank you very much for appearing here today. I appreciate it.

If you have any additional statements, or data that you would like to include in the record, we will hold the record open until the end of this month.

I might say that this record will be read by the Senate Budget Committee staff, and hopefully will go into the judgments we make on the budget.

If there is anyone who wishes to submit additional written remarks, we will keep the record open until March 31. If you will just mail your remarks to my office here in Memphis, located in room 390 of the Federal Building, 169 North Main Street, I will make sure it gets into the record.

I want to say here that we have had these hearings, this is the fourth hearing, across the State of Tennessee. We have tried to get a fair cross section of witnesses. I really wanted to get down to the facts. This is not an effort to build up support for these various programs. It is an effort to find out whether or not these programs work, how the people of Tennessee feel about them, that have to deal with them.

NO SUPPORT FOUND FOR CURTAILMENT OF PROGRAMS

Quite frankly, I thought we would develop some adverse testimony. In upper east Tennessee, I had rural county judges testify up there, and some staunch Republican office holders, whom I would think would support the President in any of his efforts. But yet I have found no credible testimony that indicates that there is support among public officials, or support among individuals, who deal on a day-to-day basis with these programs, for serious curtailment.

There is a recognition that we have a budget problem. There is a recognition that some of these programs might have to be cut. But I can find no support, really, for completely doing away with them, and zeroing them out.

It appears to be the testimony of everyone, or almost everyone, that their community would be adversely impacted by the curtailment, or serious curtailment or abolition of these programs.

I want to thank the witnesses for appearing here and testifying. I apologize for getting you out on a pretty Saturday afternoon. But that was the only way we could do it.

We will start these budget considerations Monday, and I wanted to get as much testimony as I could, prior to actually voting on the budget at the Budget Committee on Monday afternoon.

Thank you.

[Whereupon, at 4:20 p.m., the committee was adjourned.]

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